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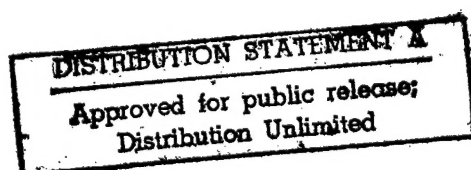


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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-92-078

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## NATIONAL AFFAIRS, POLICY

### New Industrial Assessment System Announced

HK3009081092 Beijing RENMIN RIBAO in Chinese  
17 Sep 92 p 2

[Report: "China Announces New Method for Carrying Out Industrial Production Examination and Evaluation System"]

[Text] Beijing, 16 September (RENMIN RIBAO)—A few days ago, the State Statistics Bureau, the State Planning Commission, and the Economic and Trade Office under the State Council jointly issued a circular announcing that, beginning this month, the realization of national and regional added values of industrial products and overall economic efficiency will be published on a monthly basis (see the attached chart for the performance during the January-July period this year) and the performance of various industrial departments will also be published at the appropriate time.

Improving the industrial production examination and evaluation index will help promote the shift of the focus of economic work to structural readjustment and efficiency improvement. According to the requirements of the State Council, the State Statistics Bureau has worked out a specific implementation proposition, and beginning in April of this year, a major reform was carried out in China's industrial production examination and evaluation system.

In terms of industrial economic management, we basically used the production statistics index in the past. The index, based on total industrial output value, chiefly reflects only the industrial production scale and growth rate, leading to the mode of management in which "heroes are determined by output value." As a result, a few enterprises one-sidedly pursue output value and growth rate to the neglect of market demand, product quality, and economic efficiency. Hence, there is a bad circle characterized by increased production, expanded stockpiling, and poor efficiency. The new index for examining and evaluating industrial production considers not only the factor of enterprise production growth, but also those of sale volume and economic efficiency, enabling the unified perspective of production, exchange, and economic efficiency. This will help stimulate enterprises to continuously enhance their awareness of the importance of economic efficiency, improve their operations and management, and boost their inherent motive force of improving economic efficiency. It will also help stimulate localities to take the path of expanded reproduction by intention in terms of economic development, improve economic efficiency, and play a guiding role in the operation of the national economy.

We have stressed taking the improvement of economic efficiency as the focal point of economic work for many

years, but we have not had a set of scientific and rational economic efficiency evaluation index systems. The eight indexes and the 16 indexes we pursued in the past had inadequacies in evaluating industrial economic efficiency. 1) We did not have a set of scientific industrial economic efficiency index systems which were generally acknowledged by society as being feasible. 2) We lacked a generally acknowledged scientific, simple, and convenient evaluation method. 3) We lacked a complete set of stable statistical rules, regulations, and plans. The current new economic efficiency index and evaluation system has basically solved the three problems mentioned above, thus enabling China's industrial economic efficiency evaluation work to take a great step forward toward standardization, regularization, and institutionalization. It has also made the procedures of examining and evaluating economic efficiency more scientific, thus providing governments at all levels and management departments with reliable decision-making bases for improving economic efficiency.

Publishing the realization of the comprehensive industrial economic efficiency index on a regular basis and evaluating the realization of the economic efficiency of different localities using the new evaluation method and a national unified standard will help macroeconomic management play a better guiding role and help all of society pay more attention to the importance of economic efficiency, concern themselves with our country's economic efficiency, and universally gain greater awareness on economic efficiency. It will also promote the rational development of the industrial economy and have a positive role in promoting the overall improvement of China's industrial economic efficiency.

The first circular—issued by the State Statistics Bureau, the State Planning Commission, and the Economic and Trade Office under the State Council—shows that the national added-on value of industrial products in the January-July 1992 period is 418.94 billion yuan, an increase of 18.5 percent over the same period last year calculated in terms of comparable prices. In terms of localities, Hebei, Jiangsu, Zhejiang, Shandong, Henan, Guangdong, and Guizhou attained above-average national growth rates in added-on value.

In addition to having a rapid increase in industrial production, China enjoys an increase in overall economic efficiency. The nation's overall economic efficiency index based on the new evaluation method is 86.27 percent, an increase of 4.64 percent over the same period last year. In terms of localities, Beijing, Shanghai, Zhejiang, Fujian, Guangdong, Yunnan, and Guizhou attained a higher overall economic efficiency index. Fourteen provinces and autonomous regions attained lower overall economic efficiency indexes including Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hainan, Sichuan, Shaanxi, Qinghai, Ningxia, and Xinjiang.

## Realization of Regional Comprehensive Industrial Economic Index and Six Economic Efficiency Indexes

|                | Comprehensive Index (%)  | Increase/Decrease (%)<br>Compared With Same<br>Period Last Year (+, -) | Product Sales Rate of<br>Funds (%)                | Profit/Tax Rate              |
|----------------|--------------------------|--|---|------------------------------|
| National Total | 86.27                    | 4.64   | 92.85   | 9.79                         |
| Beijing        | 116.00                   | -1.64  | 94.59   | 14.73                        |
| Tianjin        | 83.81                    | 5.00   | 93.63   | 8.84                         |
| Hebei          | 81.06                    | 9.84   | 94.45   | 8.33                         |
| Shanxi         | 75.89                    | 0.36   | 92.27   | 7.08                         |
| Inner Mongolia | 63.34                    | 2.02   | 92.61   | 5.72                         |
| Liaoning       | 78.60                    | 7.93   | 92.13   | 8.39                         |
| Jilin          | 66.81                    | 2.68   | 92.99   | 5.99                         |
| Heilongjiang   | 73.89                    | -7.14  | 93.81   | 6.25                         |
| Shanghai       | 118.80                   | 6.09   | 96.56   | 15.08                        |
| Jiangsu        | 89.04                    | 11.15  | 90.44   | 10.32                        |
| Zhejiang       | 101.10                   | 5.52   | 93.43   | 13.66                        |
| Anhui          | 73.77                    | 6.03   | 92.84   | 8.75                         |
| Fujian         | 100.81                   | 1.73   | 91.04   | 13.38                        |
| Jiangxi        | 75.37                    | 10.80  | 90.69   | 8.31                         |
| Shandong       | 87.27                    | 7.99   | 88.73   | 9.15                         |
| Henan          | 77.82                    | 3.66   | 93.44   | 8.54                         |
| Hubei          | 86.38                    | 5.20   | 92.73   | 10.64                        |
| Hunan          | 83.92                    | 8.83   | 95.05   | 10.76                        |
| Guangdong      | 97.77                    | 2.84   | 93.95   | 10.13                        |
| Guangxi        | 86.20                    | -10.77   | 90.37   | 10.45                        |
| Hainan         | 65.23                    | -4.15  | 86.99   | 4.97                         |
| Sichuan        | 71.34                    | 7.78   | 95.11   | 7.56                         |
| Guizhou        | 90.68                    | 11.24  | 95.01   | 13.16                        |
| Yunnan         | 135.86                   | -7.49  | 93.98   | 24.44                        |
| Tibet          |                          |  |   |                              |
| Shaanxi        | 64.56                    | -0.46  | 89.02   | 6.12                         |
| Gansu          | 80.61                    | 1.70   | 92.43   | 8.52                         |
| Qinghai        | 49.77                    | -5.20  | 94.93   | 3.16                         |
| Ningxia        | 56.57                    | -1.59  | 92.24   | 4.10                         |
| Xinjiang       | 76.32                    | -1.63  | 96.58   | 5.55                         |
|                | Profit Rate on Costs (%) | Productivity (Yuan/<br>Person)   | Turnover Frequency of<br>Circulating Funds (time) | Net Output Value Rate<br>(%) |
| National Total | 4.47                     | 9047   | 1.56  | 27.15                        |
| Beijing        | 9.62                     | 13797  | 1.62  | 28.10                        |
| Tianjin        | 3.44                     | 9825   | 1.66  | 23.97                        |
| Hebei          | 4.51                     | 8000   | 1.51  | 27.44                        |
| Shanxi         | 5.64                     | 6508   | 1.27  | 30.82                        |
| Inner Mongolia | 1.80                     | 5699   | 1.18  | 29.85                        |
| Liaoning       | 3.60                     | 8400   | 1.38  | 27.76                        |
| Jilin          | 2.49                     | 6947   | 1.17  | 28.40                        |
| Heilongjiang   | 2.97                     | 8810   | 1.14  | 35.84                        |
| Shanghai       | 8.68                     | 15169  | 1.77  | 26.20                        |



**Realization of Regional Comprehensive Industrial Economic Index and Six Economic Efficiency Indexes (Continued)**

|           |       |       |      |       |
|-----------|-------|-------|------|-------|
| Jiangsu   | 4.16  | 8982  | 1.95 | 22.43 |
| Zhejiang  | 5.99  | 9073  | 1.96 | 24.40 |
| Anhui     | 1.98  | 6262  | 1.54 | 25.33 |
| Fujian    | 5.85  | 8754  | 2.02 | 26.85 |
| Jiangxi   | 2.69  | 6221  | 1.69 | 25.53 |
| Shandong  | 4.10  | 10411 | 1.68 | 27.19 |
| Henan     | 2.25  | 8003  | 1.48 | 29.77 |
| Hubei     | 4.81  | 7866  | 1.55 | 26.66 |
| Hunan     | 2.82  | 7711  | 1.52 | 29.75 |
| Guangdong | 4.50  | 14064 | 1.76 | 25.76 |
| Guangxi   | 4.25  | 8780  | 1.55 | 26.66 |
| Hainan    | 1.77  | 9574  | 1.11 | 25.25 |
| Sichuan   | 2.81  | 6498  | 1.28 | 27.65 |
| Guizhou   | 3.15  | 8900  | 1.18 | 37.00 |
| Yunnan    | 4.36  | 14848 | 1.82 | 39.13 |
| Tibet     |       |       |      |       |
| Shaanxi   | 2.03  | 6724  | 1.07 | 29.48 |
| Gansu     | 4.26  | 8332  | 1.37 | 29.88 |
| Qinghai   | -2.18 | 7257  | 0.87 | 28.35 |
| Ningxia   | -0.74 | 6814  | 1.17 | 28.55 |
| Xinjiang  | 1.57  | 10521 | 1.57 | 31.04 |

**Regional Added-on Value of Industrial Products**

|                | January-July (Billion Yuan) Accumulative Total | Growth Over Same Period Last Year (%) |
|----------------|--|---------------------------------------|
| National Total | 4189.40  | 18.49                                 |
| Beijing        | 139.95   | 10.93                                 |
| Tianjin        | 82.93  | 15.38                                 |
| Hebei          | 183.92   | 24.50                                 |
| Shanxi         | 116.76   | 14.66                                 |
| Inner Mongolia | 55.44  | 8.66                                  |
| Liaoning       | 296.59   | 11.97                                 |
| Jilin          | 111.14   | 10.29                                 |
| Heilongjiang   | 212.82   | -0.07                                 |
| Shanghai       | 325.58   | 18.33                                 |
| Jiangsu        | 402.03   | 33.84                                 |
| Zhejiang       | 213.78   | 27.37                                 |
| Anhui          | 80.40  | 17.88                                 |
| Fujian         | 79.90  | 14.63                                 |
| Jiangxi        | 66.70  | 15.95                                 |
| Shandong       | 348.31   | 22.18                                 |
| Henan          | 174.49   | 22.57                                 |
| Hubei          | 171.97   | 16.46                                 |
| Hunan          | 129.53   | 13.52                                 |
| Guangdong      | 358.56   | 26.36                                 |
| Guangxi        | 66.73  | 15.53                                 |

Regional Added-on Value of Industrial Products (Continued)

|          | January-July (Billion Yuan) Accumulative Total | Growth Over Same Period Last Year (%) |
|----------|--|---------------------------------------|
| Hainan   | 7.63   | 17.39                                 |
| Sichuan  | 198.33   | 15.12                                 |
| Guizhou  | 49.41  | 22.54                                 |
| Yunnan   | 100.61   | 10.70                                 |
| Tibet    |  |                                       |
| Shaanxi  | 83.52  | 10.19                                 |
| Gansu    | 63.46  | 14.77                                 |
| Qinghai  | 10.16  | 5.55                                  |
| Ningxia  | 12.58  | 7.67                                  |
| Xinjiang | 46.17  | 16.72                                 |

### Journal Examines Enlivening Large Enterprises

HK2409091292 Beijing JINGJI GUANLI in Chinese  
No 5, 5 May 92 pp 8-10

[Article by staff reporter: "Current Problems in Enlivening Medium and Large Enterprises and Some Suggestions"]

[Text] Overall, the various regions and departments have placed great stress on enlivening medium and large state-run enterprises and have done a great amount of work and achieved initial results. The measures adopted by the State Council, such as structural readjustment, clearing up "triangular debts," limiting production to keep stock under control, reversing losses, increasing profits, and developing "quality, variety and efficiency year" activities, have all played an important role in the turn for the better achieved in the economic efficiency of industrial enterprises throughout the country last year. At present, the various provinces and municipalities are making specific arrangements and deployments for this year's work and the development trend is very good. Following implementation of the 20 articles and deepening of the work to change the operational mechanism of enterprises, this has certainly further promoted the development of the national economy in a good direction.

In January this year, the State Council sent 20 investigative research teams to 20 provinces and municipalities to investigate and understand the situation in respect of implementation of the spirit of the central work conference, and together with comrades from the relevant provinces and municipalities, they jointly researched the problem of enlivening medium and large enterprises. During the investigation, the various areas reflected many situations. Some of these were old problems and some were problems in implementing the 20 articles. Some problems were widespread and others were limited to certain regions or certain industries. In summary, the main problems were as follows:

1. Problems in implementing the "Enterprise Law" and implementing enterprise autonomy.

According to reports from various investigative research teams, all areas have paid great attention to implementing the "Enterprise Law." They have done a great amount of work in this and also realized some results. However, the basic-level comrades and enterprises indicated that the hardest things to implement are organization establishment rights, personnel and labor rights, product price-fixing rights, fees and levy suppression rights, guidance planning readjustment rights without material guarantees, and foreign trade autonomy rights. At present medium and large enterprises: Generally have 30 to 40 administrative or technical offices; despite repeated prohibitions, the various social levies and charges have not been eliminated; and investigations, inspections and assessments have only ceased in industrial enterprises, while they are still carried out in other departments. There are four major reasons why the "Enterprise Law" has not been well implemented: 1) There has not been a basic change in the function of government departments and they interfere too much in enterprises and impose too many levies. 2) The market is still not developed. 3) There are no specific regulations for implementation. 4) There are no clear executive bodies. It has been widely advised that: "The 'Enterprise Law' is very important but it is also greatly lacking in authority." Everyone greatly hopes that the pace of reform will be speeded, implementation regulations will be formulated as quickly as possible, and executive bodies will be clarified. Reform in all aspects must have the strengthening of enterprise vigor as its center and must be coordinated as far as possible. The changeover in government functions must proceed at the same pace as the changeover in enterprise operational mechanism.

2. The problem of retaining the "three funds."

Raising depreciation rates and retaining 1 percent of sales income for each new product development and supplementing circulating funds is a good policy, but at present, the majority of enterprise are not enjoying the benefits. According to preliminary estimates from Tianjin, Shandong, Hubei, Fujian, Shanxi, and Shaanxi, only 20 to 30 percent of enterprises can retain the full amount of the "three funds." Some of the enterprises can retain

"one fund" or "two funds" but the majority of enterprises cannot retain any funds. In Heilongjiang, Hubei, Shanxi, and Anhui, about 70 percent of enterprises are completely unable to retain any of the "three funds." From Jilin Province statistics, we see that of 194 local medium and large enterprises within the budget, only 12, or 6.2 percent, are able to retain the "three funds." Based on estimates in respect of the 107 medium and large enterprises which are making profits, we can predict that if they only retained "two funds" (increased retention of depreciation funds and supplementary circulating funds), 44 of the enterprises would change from profit-makers to loss-makers. This is because the enterprise burdens are too heavy, profits are small, and they lack the capacity to bear the burdens. According to financial statistics, in 1991, the entire retained profits of state-run industrial enterprises within the budget throughout the country was 15.8 billion yuan (before deducting the "two funds"). This is already lower than the net retained profits of 16 billion yuan in 1984. Many enterprises are concerned that the deduction of the "three funds" will reduce profits, affect the completion of contracted tasks, and affect the retention of wages based on performance. Some provinces have proposed that in the current situation whereby state finances, local finances, and enterprises are all in difficulties, localities should be allowed, under the precondition of guaranteeing the completion of financial tasks in terms of amounts to be handed up, to carry out appropriate "self-funded reforms." This would bring into play the enthusiasm of the center and the localities and be beneficial to implementing the policy measures set down by the party Central Committee and the State Council.

3. The question of reducing income tax from 55 to 33 percent.

Shandong, Guangdong, Shaanxi, Gansu, and Fujian all indicated that this measure, which is currently being introduced, will only play a definite role for enterprises with a quite high level of profits. Some provinces and municipalities propose that this policy should also be extended to contracted enterprises which have heavy technical transformation tasks and which urgently need developing.

4. On the question of speeding the coordinated reform of enterprise labor and personnel, wage distribution, and social insurance systems.

The various regions all indicated that a major difficulty in changing the enterprise operational mechanism is that the coordinated reform of the labor and personnel, wage distribution, and social insurance systems is lagging and that there is a lack of safeguard mechanisms. There are many enterprises wishing to reform but are afraid of the risks involved. For example, in respect of dismissing or retiring workers, because the unemployment insurance system is incomplete and it is very difficult to gain new employment, enterprise leaders are afraid of getting entangled in disputes, because personal security is not guaranteed. In terms of the cadre employment system,

promoting workers to cadres is not difficult but demoting cadres back to workers is quite difficult. In terms of wages, the idea of egalitarianism is still very strong and it is difficult to increase wage differentials. The various regions and enterprises widely required speeding the pace of coordinated reform of the three systems and the provision of specific operational measures as quickly as possible.

5. The problem of old industrial bases.

Some provinces indicated that the problem of old industrial bases is extremely prominent. The investment required for structural readjustment and technical transformation is very great and they are in a situation of "three difficulties" whereby state finances, the local financial strengths, and the enterprise reserves are all seriously insufficient. According to statistics from Heilongjiang Province, of medium and large enterprises, 60 percent have factories which were built before the First Five-Year Plan, while 52 percent of them have equipment which has exceeded its service life or is close to being scrapped. Of these, 29 percent of the machine-building industry enterprises have equipment which has exceeded its service life by 20 years, while 56 percent have equipment which is 15 years past the usual service life. Henan Province has indicated that Zhengzhou City has 680,000 spindles for spinning textiles and 16,000 looms. Of these, 90 percent of the spindles and 97 percent of the looms are obsolete or backward. They have to carry out transformation but they do not have the funds. Other major textile bases such as Shanghai, Tianjin, Shaanxi, and Qingdao all have similar problems. According to reports from various areas, the military industry enterprises are now also experiencing great difficulties but they are basically unable to enjoy the 12 preferential policies intended for enlivening medium and large enterprises. They face great difficulties in structural readjustment and technical transformation, and large-scale shutdowns, suspensions, amalgamations or transfers are unrealistic. Thus, they hope that the state will adopt measures to improve the situation as quickly as possible.

6. The question of readjusting the structure.

The various areas have already placed great stress on the question of structural readjustment and they have already begun to take some steps. However, there is a widespread feeling that the difficulties will be very great. Henan Province has indicated that at present there is already a surplus of color television tube production capacity throughout the country and yet new projects are going ahead. In Liaoning Province alone there are four television receiver factories and four washing machine factories which have not achieved an economic scale of operations. In Hunan Province, as the product structure is irrational, over 40 percent of products are poor sellers but it is extremely difficult to adjust this.

All of the investigative research groups pointed out that there is a need to strengthen macroeconomic regulation

and control and to resolve the problems of duplicate construction and duplicate imports. They advised that the localities should be allowed to proceed with projects which bring into play local superiorities and have local characteristics. However, the national, and especially the "hot," projects should be arranged in a unified way by the state. Guangdong and Shanxi proposed: 1) The state should appropriately centralize examination and approval powers for major projects, to restrain the tendency towards dispersal which has resulted from "cooking in separate kitchens" on the financial level and from investment pluralization. 2) Industrial management should be strengthened and medium and large state enterprises, urban collective enterprises, township enterprises, and the three types of enterprises which are partly or wholly foreign-owned, should all be subject to management. In respect of products for which supply exceeds demand, licensing and quota systems should be implemented; for medicines, monopolies might be implemented, and for textile spindles, regional quotas could be set to control the scale of development. 3) Macroeconomic control over key products should be strengthened to prevent blind construction and duplicated imports. 4) Market information should be issued regularly to guide the various areas in readjusting their product structures. 5) Stock companies or groups which cross regions and departments should be actively developed, to promote readjustment of assets stocks.

In the readjustment of enterprise organizational structures, the liability burdens and arrangements for workers in enterprises which are shut down, suspended, amalgamated, or whose production is switched must be handled properly. We should allow such enterprises to stop charging their accounts and allow repayments in installments. As to surplus staff, some can be absorbed but some will have to be dismissed to reduce the burden on some of the superior enterprises.

#### 7. On the problem of reversing losses.

At present, the problem of enterprise losses is still serious. According to data from the financial departments, at the end of last year the loss-makers in state-run industrial enterprises within the budget throughout the country totalled 29.7 percent of the total. Of the 20 provinces, the lowest was Shanghai, with a figure of 9.4 percent, while the highest was Liaoning with a figure of 49 percent. The total losses throughout the country were 31 billion yuan but these were mainly policy-nature losses. Of these losses, those incurred by the coal industry totalled 6.829 billion yuan, those of the oil industry were 5.952 billion yuan, the tobacco industry incurred losses of 1.843 billion yuan, and military industry incurred losses of 1.44 billion yuan. The losses of these four major industries totalled 16.064 billion, or 51.8 percent of the total.

In respect of the policy-nature losses, we should gradually resolve the problem by putting prices in order. In respect of the operational losses we should, like Xuzhou and other areas, resolve the problem in coordination by

changing operational mechanisms through adopting different measures in different areas. Shanghai, Fujian, Shaanxi, Jiangsu, and other such provinces, municipalities, and areas have established funds for turning losses around as a way to help key enterprise turn around their loss-making situations. This is beneficial in helping enterprises which are in great difficulties but which have prospects for future development to turn their losses around.

The factors producing enterprise losses, or hidden losses, are quite complex. In looking essentially at how to cure the problem, reform of the financial accounting system must be accelerated and the pace of price reform must be appropriately speeded up. At the same time, it is necessary to grasp properly: The sorting out and reappraisal of assets and property; the formulation and revision of depreciation, costs, accounting, and auditing systems; and to study and explore avenues by which enterprise assets can cover their liabilities and they can take sole responsibility for their own profits and losses.

#### 8. On the question of reducing enterprise burdens.

The various areas indicated that enterprises bear heavy burdens in three respects: 1) Enterprises have duties in running the society. Jiangsu Province noted that there are 39,000 staff and workers at the Nanjing Chemical Industry Company, while the students they support in nurseries, primary schools, middle schools, technical schools, and "five tertiary institutes" number 19,000. Each year, the school costs are close to 7 million yuan and it is necessary to pay education surcharges of over 500,000 yuan. There are also 8,300 retired workers who annually receive over 13 million yuan in retirement benefits. This includes additional payments for the labor protection planning fund of over 3 million yuan. Annual nonoperational expenditure totals 24 million yuan, while over 6 million yuan is expended on medical costs every year. The enterprise has to look after medical treatment, housing, transportation, military equipment, shops, planned parenthood, and so on. Many enterprises also have public security offices, local police stations, and supervision offices to support. 2) Enterprises have little of their own funds and their interest burdens are very heavy. According to a survey of 19 medium and large enterprises conducted by Hebei Province in 1991, on outstanding bank credit of 2.34 billion yuan (of which 1.08 billion was fixed assets credit and 1.26 billion was for circulating funds credit), they had to pay over 200 million yuan in interest for the year. This was 2.4 times the enterprises' realized profits and 1.3 times the profits and taxes they had handed up. According to statistics, in 1990, the state-run industrial enterprises within the budget throughout the country had an outstanding balance for capital construction and technological transformation credit of 275.39 billion yuan. 3) The "three arbitraries" have been repeatedly prohibited, but have not yet ceased. Through sorting things out, the "three arbitraries" did see a reduction, but have now seen a resurgence. The "three arbitraries" are stubborn, fickle, and hidden from view. The various areas proposed that



we should gradually solve this problem through changing the enterprise operational mechanism and engaging in coordinated reform in the various respects.

The various areas widely noted that the party Central Committee and the State Council leaders had recently repeatedly stressed in their speeches that we must be a bit braver in reform and opening up and that the pace of reform and opening up must be a little faster. Shanghai and Tianjin suggested that at present it is necessary to strengthen the propaganda urging the deepening of reforms, to form a fine environment of opinion, to further unify the ideological understanding of the whole party and the people of the whole country, and to raise the cadres and masses' sense of urgency and their ideological and psychological capacity to bear the reforms, in order to promote the deeper development of the reforms. Shandong and other provinces noted that the party Central Committee and the State Council proposed that this year it is necessary to switch the crux of economic work to readjusting the structure and raising efficiency, to increase the volume of reform, and to place the focus of work on enterprise reform, especially on changing the operational mechanism of enterprises. This is complete accord with our country's actual situation and should be propagated to speed the pace of reform. The comrades of the investigative research groups also widely held that the localities and enterprises have very high enthusiasm and zeal for reform and support the series of policies and measures for promoting reform put forward by the party Central Committee and the State Council. They hope that government departments at all levels will be able to keep up with the reform situation, seriously and properly grasp a number of experimental enterprises for testing reforms and to study and solve in a timely way problems which occur in reforms, supporting and protecting those pioneers who are brave in reform. At the same time as changing the operational mechanism of enterprises, it is necessary to streamline organizational structures and change government functions. It is necessary to promote the coordinated reform of planning, finance, taxation, banking, pricing, goods and materials, and foreign trade. It is also necessary to support brave explorations by enterprises in which the experiments are being carried out, and in a timely way, sum up, pass on, and spread new experiences in reform.

#### **Limits of Shareholding To Solve Enterprise Problems**

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[Article by Xun Yang (5424 2543) of the Economics Department, Liaoning University: "The Shareholding System Cannot Solve Operating Mechanism Problems Within State-Owned Enterprises"]

[Text] Under capitalist conditions, the purpose of creating the shareholding system was not to solve the operating mechanism problems within enterprises. Nor does the system itself has such a function. In the reform

of socialist state-owned enterprises, will it, as some people expect, assume a new role and become capable of solving the enterprises' internal problems concerning irrational operating mechanism? To answer this question, it is necessary to make clear such issues as the relationships between the shareholding system and property rights, and between the system and the control of enterprise activities.

#### **Relationship Between the Shareholding System and Property Rights**

In probing ways to reform China's enterprises, some people have proposed that the shareholding system be introduced as the basic measure to reform state-owned enterprises. The main purpose is to use the shareholding system in solving state-owned enterprises' problems, such as unclear property rights and nobody being responsible for state assets. This proposal lacks a clear understanding of the relationship between the shareholding system and property rights. In fact, it is a reversal of logic. The shareholding system is not a premise for clarifying property rights; on the contrary, it requires the clarity of property rights as its premise.

Property rights are the rights of property ownership. They consist of the rights of ultimate ownership, actual possession, use, benefits, and disposition of property. Among these, the right of ultimate ownership is the most essential right, for it contributes to the ownership nature of property rights and is the basis from which all other rights concerning property are derived.

From the ultimate-ownership viewpoint, property rights must be clearly defined before the shareholding system is implemented. The shareholding system is an arrangement whereby shareholders pool their funds to establish an enterprise with each enjoying the revenue and undertaking the risks in proportion to the number of shares in hand. As a premise for forming an enterprise under the shareholding system, it is imperative to define the ownership of the shares of assets. That is, who should own these assets, and who should be responsible for the profits and losses of these assets? Whoever is the owner of these assets should hold the share certificate as evidence of ownership. If the property rights over these assets—in the sense of ultimate ownership—are not clearly defined when investors are buying shares, the property rights issue will be even more confused after the enterprise is formed. In that case, the shareholding system will be meaningless and unable to play its due role, and it cannot be called a shareholding system. As can be seen, clarity of property rights is a basic premise for implementing the shareholding system, and for setting up enterprises under this system. This is the case with the capitalist as well as the socialist shareholding system. With property rights clearly defined, the purpose of implementing the shareholding system is not to clarify the property rights issue—which has already been clarified—but to solve other problems. As a matter of fact, the idea of using the shareholding system to clarify the

property rights issue stems from a misunderstanding of the general principle and functions of this system.

Now, theoreticians have put forth a variety of proposals on shareholding reforms. A careful analysis of these proposals reveals that their essential differences are not in the shareholding systems to be implemented, but in the ways of dealing with the property rights issue, the premise for implementing the shareholding system.

To draw up a new property rights system for enterprises owned by the whole people, it is necessary, on the one hand, to define the right of ultimate ownership and the organization entitled to this right (the state), and to segregate the state's ownership function from administrative function. On the other hand, it is necessary to separate the ownership right and management power so that enterprises owned by the whole people can hold their ownership right independently as legal persons, they thus become legal-person enterprises that exist independently of their ultimate owners. This is one of the hardest and the most-discussed questions on the reform of enterprises owned by the whole people. The current Western system of legal-person enterprises has evolved from the shareholding system through extensive division of ownership. The extensively divided ownership makes it impossible for any private owner to rely on his large share of ownership to intervene directly in the operations of the enterprises, and the management of enterprises can control the real operational and policy-making power. This way, the ownership right is separated from the management power, resulting in the establishment of the modern legal-person enterprise system.

In China's enterprise reform, some people have drawn on Western experience, and proposed that a legal-person system for enterprises owned by the whole people be established on the basis of the shareholding system. But there is an insurmountable basic problem: The ultimate ownership of assets of enterprises owned by the whole people is solely held by the people at large represented by the state. This ownership cannot be divided. In our opinion, the only way to separate the ownership right and management power of enterprises owned by the whole people and to turn them into independent legal-person enterprises is to reasonably circumscribe intervention by the state, as the ultimate owner, so that it cannot directly intervene in the enterprises' activities of production and operations. In the case of private owners, it is impossible to circumscribe intervention in management power by the ownership right because private owners have the absolute right to deal with and dispose of the assets. However, it is possible to circumscribe the owner's rights exercised by the state as representative of the whole people. This right comes from the people at large and embodies their will in general. Therefore, the people at large, in consideration of their overall interests, are fully entitled to use laws or regulations to reasonably circumscribe the owner's right exercised by the state. If the independence of property rights of enterprises owned

by the whole people that is, the separation of the ownership right and management power is achieved by circumscribing the owner's right exercised by the state, then it is no longer important whether these enterprises are implementing the shareholding system and what percentage of their assets are owned by the state. Even if the state owns all assets of the enterprises, it is still unable to intervene in the enterprises' activities of production and operations.

#### **The Shareholding System and Control of Enterprise Activities**

Some people hope that under the shareholding system it will be possible to rely on shareholders' meetings or boards of directors to gear up the owners' control over the management and establish a self-control mechanism within the enterprises. In fact, this is also a misunderstanding of the functions of the shareholding system. The merit of the shareholding system is to facilitate the separation of the ownership right and management power, which cannot gear up but may even weaken the control over the enterprises' activities.

In any joint stock enterprise, the control exercised by the shareholders' meeting or the board of directors over the management depends on how earnestly the shareholders are concerned about the increase of value of the shares they own or represent. Generally speaking, their concern is the same before and after the shares are purchased. If they are not concerned about the increase of value of the assets before buying the shares, they will not show any concern after becoming shareholders. If every shareholder is concerned about his share of assets, this is due to the specific property rights condition and the relevant rules already established before they became shareholders; it has nothing to do with whether the shareholding system is implemented or not. The effect of the shareholding system is merely to achieve, through the consignment of property management, an optimum reorganization of the property for which some people are concerned and there is also someone to take responsibility. Because the shareholding system adds to the levels of consignment of property management, and extends the property control chain, it cannot restore control over the enterprises' activities. On the contrary, it may increase the possibility of weakening such control, and thus aggravate the difficulty in forming a proper enterprise operating mechanism. Under the condition of capitalist private ownership, the shareholding system has changed the private enterprise system characterized by the integration of owners and managers—and hence the strict control of enterprise activities—into a joint stock enterprise system in which the owners are not the managers and the former must use a contract arrangement to control the latter. This means a change in the way of controlling the activities of managers from internal control to external control. As a result, the managing stratum may become irresponsible or quest for private gains. Because of this, when the shareholding system was first introduced, many scholars held that this system, used as a property rights structure, would result

in inefficiency.<sup>1</sup> How to improve the method of control over the management stratum has always been a major question in perfecting the joint stock enterprise system. Organizations such as boards of supervisors and boards of directors have been designed mainly for solving this question.

Under the condition of socialist public ownership, state-owned enterprises have no personalized owners, but only personalized representatives of owners. Accordingly, how to control the activities of the representatives of owners is a key question. These representatives, who are not genuine owners, have no inherent concern about the increase of the property value. Therefore, it is necessary, first of all, to set up a mechanism to control the representatives' activities. Due to its characteristics, the shareholding system, when applied to enterprises owned by the whole people, can only increase the levels of representation of owners, and lengthen the chain for controlling the enterprises' activities. It thus increases the possibility of weakening the control.

As can be seen from the above analysis, the shareholding system does not have the function of solving the problem of irrational internal operating mechanism of either capitalist private enterprises or socialist state-owned enterprises. However, this does not mean that the shareholding system is of no significance to China's enterprise reform. Specifically, the system is conducive to pooling capital for construction, promoting lateral cooperation among enterprises, facilitating the reasonable flow of resources, raising the efficiency of fund utilization, optimizing the allocation of resources, and enhancing people's consciousness of investment as well as the risks involved.

#### Footnote

1. Zhang Jun: *MODERN PROPERTY RIGHTS ECONOMICS*, Shanghai Joint Publishing House, 1991 edition, p 153.

#### Experts on Transforming Enterprise Mechanism

HK1009080592 Beijing JINGJI GUANLI in Chinese  
No 4, 5 Apr 92 pp 19-25

["Experts and Scholars on the Transformation of Enterprise Operating Mechanism"—extracted from GONGYE JINGJI NEICAN (Industrial Economics Internal Reference) Nos 192-200]

[Text] Editor's note: Last year's central work conference pointed out that effectively transforming the operating mechanism is the fundamental way to effectively manage large and medium state enterprises. How to understand and grasp this issue has been a controversial topic for many frontline workers, experts, and scholars in the economic and theoretical circles. Soon afterward, at a seminar organized by the Industrial Economy Society of China, many comrades expressed their views

on this issue. We have compiled the speeches by some of the experts and scholars at the seminar and now publish them. [end editor's note]

Yang Peixin [2799 1014 2450] (research fellow with the State Council Research Center for Economic Development) maintains that the key to enlivening large and medium state enterprises lies in the following three transformations:

1. It is necessary to unswervingly popularize the experience of Shoudu Iron and Steel Corporation [SISC] in fixing the amount of profit payable to the state under the contract responsibility system.

Starting in 1987, the first round of contracting popularized on a nationwide scale contributed to enlivening large and medium state enterprises for a time. However, the first round of contracting did not include the policy pursued by SISC, namely, that of fixing the amount of profit payable to the state under the contract responsibility system. From 1987 to 1990, the state started collecting urban construction tax, housing property tax, vehicle tax, education surtax, land tax, stamp duty, and budget regulatory fund. Because new taxes were constantly levied and the market was weakened by macroeconomic retrenchment, the economic efficiency of enterprises began to drop at a high rate in 1989 and the number of enterprises suffering losses increased. By the end of September 1990, the volume of losses suffered by state industrial enterprises within the budget increased by 19.3 percent, affecting as many as 36 percent of enterprises. The level of profit retention by enterprises also dropped from 23.37 billion yuan in 1987 to 18.92 billion yuan in 1990. The ratio of profits retained by the enterprises to the actualized taxes and profits dropped from 18.21 percent in 1987 to 13.24 percent in 1990. The decrease in the retained profits caused enterprises to depend more on bank loans for their technical transformation. The loans for the capital construction and technical transformation of industrial enterprises within the budget increased from 121.91 billion yuan in 1987 to 275.99 billion yuan in 1990. The consequent increase in interest payments added to the burden on the enterprises.

The success of SISC proves that fixing the amount of profits payable to the state is the only way out and this is where the essence of SISC's contract responsibility system lies. Because the principle of "fixing the base figure, ensuring the amount delivered to the state, retaining all that exceeds the contracted amount, and making up for deficits" was truly implemented it was possible to handle the relationship between the state and the enterprise rationally, safeguard the state interests, and mobilize the enthusiasm of the enterprise, giving the enterprise both pressure and the motive force. It was also by using this principle that SISC was able to: Achieve the prescribed targets for the distribution of retained profits under the contract responsibility system, whereby the fund for expanding production took up 60 percent and the welfare and premium funds each accounted for 20 percent, the ratio of actualized profits to total payroll being 1:0.8; protect the workers' and staff's interests; realize the principle of distribution according to work and more pay for more work; and able to encourage the



enthusiasm and creativity of the workers and staff. With the safeguard of this principle, SISC implemented the system of all-personnel contracting, the party committee exercised political leadership, the workers and staff became the masters, and the factory managers had full authority over operations, allowing for the formation of the management system of "contracting projects, guaranteeing delivery of profits, and keeping separate account." This thoroughly reversed the situation whereby the workers and staff remained in the position of being employed under what was claimed to be ownership by the whole people but was, in reality, state management operating in accordance with mandatory plans with the characteristic of a high degree of centralism. During the 12 years in which the contract system has been operating in SISC, the steel output increased progressively by an annual rate of 11.1 percent and the profit-fund ratio reached 66.44 percent in 1990. Both these figures are better than those for similar enterprises in capitalist countries by a big margin.

2. To transform the operating mechanism of enterprises, it is imperative to transform the government functions in economic management and streamline administration at the same time.

Since the reform began, the party Central Committee and the State Council have streamlined administration and delegated rights to lower levels. The "Enterprise Law" alone stipulated the devolution of a dozen or so rights to enterprises. However, the government departments in charge of the economy, including some key departments, did almost nothing in such reforms that could touch their foundations: The original organizations, functions, and systems have been left intact or changed in form only. A profound lesson which can be drawn from the past 10 years is that if we only promise streamlined administration to enterprises without making big changes to the planning, investment, financial, tax, foreign trade, monetary, and labor systems, the promise will be difficult to honor, giving rise to a complicated scenario of seesaw contentions, mutual impeding, and the devolution of rights on one side versus withdrawal of rights on the other. Therefore, in order to transform the operating mechanism of enterprises, the prerequisite is to reform the abovementioned economic management systems.

Transforming the government functions in economic management has to be combined with streamlining administration. From 1978 to 1990, the number of staff in government organs increased by an annual rate of 6.7 percent, 4.8 times the growth rate of the national population. The overstaffing and unwieldy organizations have made streamlining of the administration indispensable, otherwise no problems can be solved. In streamlining the administration, we should on no account consider layoffs and wage cuts but should gradually turn some nonproductive organizations into productive ones, in a planned and organized way, to lessen the burden on the government and thoroughly change the government functions in economic management.

3. It is necessary to improve macroeconomic regulation and control and create fine market conditions for enterprises.

In recent years, we have kept sight of macroeconomic regulation and control but the assessment of total demand and total supply has not been sufficiently accurate and the efforts in regulating have not been timely enough, leaving much room for improvement. Today, our country has embarked on the road of planned commodity economy in that both the light industry and heavy industry are producing things with market needs in mind. Stockpiling occurs when products are unsalable and this will, in turn, cause losses and shrinkage in production. In the context of the capitalist system, once an economic crisis and depression occur, survival becomes a problem even for the best managed enterprises. Therefore, to enliven large and medium state enterprises, it is imperative to make an accurate evaluation of the total demand and total supply circumspectly and in the manner of seeking truth from facts. Today, if we continue to use the method of cutting down demand, a practice passed down from the traditional system, we will run into more disadvantages than benefits. It is necessary to make some changes in this respect, stimulate demand to an appropriate extent, and promote supply with a purpose.

Xia Zuchi [1115 4371 3589] (deputy director of SISC research and development company) maintains that as far as the actual feelings on the part of the enterprises are concerned, the main reason for their failure to form a good operating mechanism is that the competent government departments have sapped all the resources of the enterprises and left them with no room for maneuver through rigorous control.

Sapping all the resources refers mainly to the fact that enterprises are bogged down by heavy burdens as a result of reforms conducted from a financial perspective only, making it impossible to form a benign cycle in production and other operations. Xia Zuchi argues that for many years, the priority consideration that financial departments have with regard to enterprise reforms has merely been aimed at maximum revenue. In the early 1980's, some large and medium enterprises implemented the contract responsibility system by drawing upon the experience of rural reforms, scoring marked results. Soon afterward, however, the Ministry of Finance, with a view to collecting over 85 percent of enterprises' net income as their contributions to the state, formulated and promulgated the plan of "changing profit delivery into tax payment." After this plan proved not to be feasible, was forced to popularize the contract responsibility system. [sentence as published] In the meantime, however, the finance authorities kept increasing the varieties of tax, raising tax rates, and replacing profit delivery with tax payment, causing the proportion of circulation tax [liu zhuan shui 3177 6567 4451] in the total amount of taxes and profits to rise from 39.5 percent in 1983 to 80 percent in 1990 and the rate of net profit retention by enterprises to drop from 14.8 percent to 8.9 percent. As a result, the enterprises

found it impossible to continue to honor the contracts. The finance departments recently proposed the plan of "separation of taxes and profits and after-tax loan repayment and contract execution." If this pilot scheme is implemented, the actual profits retained by enterprises will be inadequate even to maintain simple reproduction. Today, it has been generally noticed that all those measures conducive to enlivening enterprises are difficult to implement because of numerous obstacles, yet the measures whereby the finance authorities can shift the burden to enterprises are put into practice speedily and vigorously. This guiding principle of finance determining economy is a departure from the correct idea of "developing production to ensure supply," advocated by Comrade Mao Zedong, and the principle of economy determining finance. Xia Zuchi argues that: Enterprises are the fountainhead of wealth; financial difficulties will never be resolved without reducing the burden on the enterprises and enabling them to form mechanisms triggering an ever-expanding wealth-generating capacity; and that it is imperative to get rid of the conservative and rigid viewpoint that if enterprises retain more, state finance will naturally reap less.

The "tight control" mainly finds expression in the enterprises' inability to achieve anything independent of the government and their lacking the vitality they should have at present. On the one hand, the administrative interferences from government departments at various levels are quite serious. These include inspection and comparative appraisal, issuing documents in heaps and holding countless meetings, and the imposition of constantly renewed varieties of fees. Enterprise leaders have to devote most of their energies to dealing with their superiors. On the other hand, some government departments commercialize their power and even government ratification papers and permits are bartered away. The enterprises, for the sake of their own development, cannot but buy what they need at high prices and "approach government departments to make money [pao bu qian jin 6410 6752 6929 6651; a pun on the military command phrase 'double time']." With such distorted enterprise behavior, it is impossible to thoroughly change the operating mechanism. Reality indicates that some links in the superstructure and production relations are seriously impeding the development of productive forces and that existing management systems in such areas as planning, finance, and foreign trade, as well as unwieldy and severely bureaucratic government organizations, have obstructed the development of productive forces. Reforming those parts of the superstructure and the production relations not in keeping with the development of the productive forces, and emancipating the productive forces, has become the precondition whereby enterprises can establish fine operating mechanisms.

**Li Zhongfan [2621 1813 0416] (research fellow with the State Commission for Structural Reform)** maintains that the target mode [mu biao mo shi 4158 2871 2875 1709] of enterprise reforms is to establish enterprise mechanisms which differ from the original economic management system, conform to the development of socialist

commodity economy, and have vitality. The system of contracted operating responsibilities is the basic enterprise system for forming a vigorous operating mechanism in the context of public ownership.

The enterprise operating mechanism refers to the mode of operation inherent in the process of management of the enterprise, including the: Input of various production essentials; changeover of production and technical processes; turning out of products or labor services; entry into the market; value exchange of products at equal value; and the renewed entire cycle of operation. A vigorous operating mechanism must have: 1) A strong built-in motive power to pursue economic benefits; 2) a regulatory power which constantly sorts out all kinds of relationships within and outside the enterprise of its own accord to perfect its own overall functions; 3) a self-restraining power for observing the government and social policies, laws and regulations, and general ethics, and satisfying the market needs and what is required for self-development in such areas as investment and consumption; and 4) it must have a power to absorb, apply, and develop technology of its own accord and incessantly, with a view to realizing higher economic efficiency. Such a new operating mechanism capable of self-multiplication through recycling and organically composed of motive force, regulation, self-restraint, and technical advancement, is undoubtedly endowed with strong vitality. But it is not naturally in existence and can only be formed gradually through reform.

The operating system of an enterprise is formed through the interaction between the enterprise and the external environment in the process of operation. Therefore, it is necessary to create and provide enterprises with an external environment which conforms to the development of socialist commodity economy. This process includes the following aspects: 1) Clearly defining the relationship between the state and the enterprise in terms of responsibility, rights, and interests, and stipulating in explicit terms the respective functions of the government and the enterprise in social and economic operations; 2) establishing and developing a socialist market system, building the supply-demand relationship of products and services of the entire society on the market basis of commodity-money exchange, and urging enterprises to orientate their production and services to the market.

Property and interests are the power sources for the enterprise operating mechanism, which always revolves round these two factors, wards off any threat to the enterprise's property and interests in a certain external environment, and seeks aggrandizement of property and interests. In the context of private ownership, property is the primary source of power and the starting point and destination of enterprise operations are mainly to increase property. This gives rise to a power cycle in the mode of property-interests-property. The task at present

is to find the source of power for the enterprise operating mechanism in the socialist planned commodity economy. An effective way is, on the basis of public ownership, to give full play to the role of interest balance and make interest aggrandizement the primary source of power. This will, in turn, form a power cycle in the form of interests-property-interests. It is necessary, through the interest balance, to appropriately adjust the interest relations between the state, the enterprise, and workers and maximize unleashing the enthusiasm and creativity of the three parties.

The system of contracted operational responsibilities is an enterprise system which, with interest balance as the motive force and responsibility as the core, separates the right of management from ownership and establishes the status of enterprises in the capacity of commodity producers and operators as independent legal persons. It covers the entire content of an enterprise operating mechanism which conforms to the development of the socialist commodity economy. It has vitality, because: 1) The contract system, through the integration of responsibilities, rights, and interests, with the first as the core, defines the relationship between the state and enterprises in terms of responsibilities, rights and interests, and as a result, clearly defines the external enterprise environment, creating an important precondition for the formation of a vigorous operating mechanism. 2) The contract system takes interest balance as the source of power, thus determining the objective which the enterprise pursues and creating a strong economic motivation. 3) The contract system has extended the implications of public ownership in that, first, the material conditions for production are directly integrated with the workers at the enterprise level through the delegation of operational rights to them, and second, the integration of responsibilities, rights, and interests, with the first as the core, is applied to enterprises as well as each individual worker, so much so that the workers feel that the rise or fall of their enterprises is closely bound up with their own interests and therefore display enormous enthusiasm and creativity. 4) The contract system is compatible and a relatively rational solution to the contradiction between advanced and backward enterprises in our country.

**Dong Jiachen [5516 1367 5256]** (member of the structural reform committee, Henan Province), in view of the actual conditions concerning the trial implementation of "separation of taxes and profits" in Nanyang Prefecture, makes this point: There are many problems regarding the separation of taxes and profits that have to be carefully looked at and solved, so the conditions are not ready for it to be popularized on a nationwide scale in the near future.

1. With the separation of taxes and profits, it is difficult to ensure a steady increase in financial income.

Contrary to an incentive mechanism, the separation of taxes and profits follows the principle of correlating

taxes with profits, thus reducing the motive force for enterprises' effort toward higher profits and income.

As a restraining and risk mechanism, the separation of taxes and profits merely fixes the tax rates without fixing the tax base. What is particularly outstanding is that after-tax contract execution is in name only and has actually been made into a covert form of proportionate tax, thus making it impossible to guarantee the steady growth of financial income.

In terms of the actual results of the trial implementation in 1990, the 46 experimental enterprises in Nanyang City had an increase in sales tax of 1.85 percent over the previous year but all other indexes dropped: the actualized profits dropped by 20 percent, the delivered income tax and contracted profits dropped by 4.3 percent, and the repayment of loans with profits dropped by 11.4 percent.

Some believe that the separation of taxes and profits has readjusted the relationship between the state and the enterprise in the distribution of interests, bringing the distribution structure toward a more rational mode. This is a view which regards the increase of the proportions turned over to the state and the decrease of enterprise-retained profits as one of the advantages of the separation of taxes and profits. Some analysis should be made here point by point. If the total actualized profits decrease, even though the proportion to be turned over to the state increases, the absolute amount of profit actually going to the state treasury will in no way show very high increases and may even decrease. Therefore, in adjusting the distribution structure, thought should be given to how to make the "cake" big, instead of always thinking about how to have an extra piece.

2. The separation of taxes and profits reduces the profits retained by enterprises and weakens their power of self-transformation and self-development.

According to an assessment of the situation in 1988 by the finance bureau in Nanyang Prefecture, 20 out of the 26 enterprises which had practiced separation of taxes and profits experienced reduction of retained profits compared to when the contract system was operating. Though some flexible measures were adopted in 1989, the actual profits retained by prefectural and city enterprises still dropped by 1.58 million yuan. If the stipulated method of separation of taxes and profits was followed, the figure would have been 9.008 million yuan. In 1990, the retained profits of the pilot enterprises in Nanyang City which were operating at a profit registered 6.455 million yuan, down 24.1 and 31.3 percent compared to 1989 and 1988 respectively. Thus, it can be seen that the separation of taxes and profits gives enterprises even less profits to retain than the contract system, making their inadequacy in self-transformation and self-development more outstanding.

3. The separation of taxes and profits and after-tax repayment of loans have weakened the enterprise's power to repay loans.

After-tax repayment of loans has made loan-raising frightening to some enterprises which urgently need transformation, or whose technical transformation tasks have not been fulfilled, thus affecting the timely completion of some technical transformation projects. Take Nanyang City for example. According to how the separation of taxes and profits works, the old loans which had not been paid off by the enterprises up till 1988 would need another five years or so before they could be paid off and that is without taking account of the interest or new loans. If the stipulations in the relevant Finance Ministry documents were followed, i.e., new loans raised since 1989 have to be repaid entirely with the enterprises' own funds, it would be even more intolerably burdensome for the enterprises and the repayment period would have to be extended for very much longer. At present, when the profit rate of enterprises is generally lower than the bank loan interest rate, the stipulation of after-tax repayment of loans is actually hard to follow.

4. It is impossible to solve the existing problems with the contract system through the separation of taxes and profits, which has given rise to new problems.

First, it does not contribute to solving the problem of "taking responsibility for profits but not losses." The separation of taxes and profits works in such a way that taxes are levied only when there are profits. In other words, no matter whether an enterprise is making a profit or losing money, it is considered legitimate so long as it pays tax according to the stipulation. Because of this, an effective mechanism for affixing responsibility for losses has actually failed to come through. Compared with the policy of "paying arrears from the enterprise's own resources," it seems to be a retrogression. Second, it is impossible to eliminate the short-term behavior of enterprises. In general, the separation of taxes and profits encourages the pursuit of quick success and instant benefit and such practices as draining the pond to get all the fish. To some extent, it tends to trigger new short-term behavior. Third, it does not lead to the standardization goal. From what the trial implementation has shown, the tax rates set in the process of separating taxes and profits in various localities are disunited. In places, a 35 percent tax rate is claimed to have been followed but quite a large proportion of the enterprises actually receive partial reimbursements from the finance authorities after tax payments, so standardization is still not feasible. Therefore, before prices are sorted out and average profit rates determined, it is impossible to exercise standardized management over enterprises by unifying tax rates. On the other hand, acknowledging this fact and giving playing to such characteristics of the contract system as fixing contribution rates, enterprise by enterprise, and seeking flexibility and variety will probably help solve the problem with sharing fairly and better competition on an equal footing.

Xiao Zhuoji [5125 3504 1015] (Beijing University professor) proposes: In studying the transformation of the enterprise operating mechanism, it is imperative to solve

five problems of understanding by centering round the subject of the mechanism, its operational mode, and its operational conditions.

1. We must emphasize that the mechanism subject is the enterprise as commodity producer in a genuine sense, rather than an appendage of an administrative body as enterprises used to be. Acknowledging the enterprise's status as the subject, we must say it "ought to" hold rights, instead of "extending" its rights. In an ordinary sense, a socialist enterprise should at least hold the right to: 1) production management; 2) price products; 3) after-tax retained profits distribution; 4) dispose of production equipment; and 5) the right to expanded reproduction. These are all minimum rights originally but realizing them is now very difficult.

2. It is necessary to create conditions for enterprises to enter the market. The market has both weaknesses and strong points. Speculativeness, blindness, and spontaneity are its demerits but effective allocation of resources, regulating supply and demand, and appropriate appraisal of enterprises are merits that should not be underestimated. Therefore, promoting its advantages and checking its disadvantages and creating a relatively rounded market mechanism are issues that call for close attention in bringing enterprises into the market. The market system is underdeveloped, market order is insufficiently standardized, and the signals for pricing lack fidelity. These are factors that affect enterprise transformation after they enter the market and should not be overlooked.

3. We must allow enterprises the capacity for accumulation on their own accord. State finance and enterprises now face difficulties. Which deserves attention first? From a long-term point of view, enterprises are the fountainhead of state finance. If the source dries up, state finance will have an even tougher time. Therefore, attention should be given to enterprises first and maximum efforts made to guarantee they have self-accumulated funds. What about the state finance? At the moment, there is not much flexibility regarding revenue increase and projects incurring more expenditure are indispensable, so alternatives are a must. One way is to streamline administrative organs along with transforming government functions to reduce administrative expenditure. The other alternative is to tap new financial resources, such as pushing ahead with the commercialization of housing.

4. Appropriate management modes are required in view of enterprises' specific conditions. Reform practice has proved that in our big country where enterprise conditions differ vastly, using only one management mode will not work. An enterprise's size, its organic funds structure, its role and status in the national economy, and even its geographical position and access to resources, all impact on its production and other operations. A single management mode will only suit some enterprises and not others. Therefore, the contract or joint-stock systems should not be turned into a universal system; we should



not set an absolute form although one particular form may still dominate during a given period. For instance, the main task now is to practice contracting.

5. In transforming the mechanism, it is imperative to change the concepts. In order to establish new operating mechanisms, some traditional concepts have to be replaced. For instance, the old proverb that: "Small rivers dry up when there is little water in the big river" should now be rephrased as: "The big river has no source when small rivers dry up." Another example is that enlivening enterprises does not mean all enterprises should be enlivened: There should be both life and death. Some argue that state enterprises going bankrupt is meaningless because it is all to do with state assets anyway. In fact, applying the insolvency law to those enterprises which produce unsalable products and are technically very backward is the fulfillment of limited liability by those enterprises under state supervision to avoid greater losses to state assets. Therefore, the "Bankruptcy Law" should continue to be firmly enforced.

Liu Guangdi [0491 0342 1717] (Central Financial and Monetary College professor) points out: What is called the transformation of the enterprise operating mechanism is in effect the transfer from the traditional administrative mechanism to the market mechanism in the context of commodity economy. There are two most important aspects of the enterprise operating mechanism that have to be established in the course of transformation: One is the competition mechanism and the other is the increment mechanism. To achieve this, the market must serve as the foundation. Bringing enterprises into the market means to give the law of value a bigger regulatory role to play. In developing planned commodity economy, market is primary and planning is secondary; market is an objective existence while planning is subjective behavior; market is the objective foundation for the implementation of planning while planning is the subjective behavior for regulating and controlling market; market is where the law of value plays its role spontaneously while planning requires conscientious use of the law of value. The only way to integrate the two properly is to use the law of value as the welding point. "Spontaneity" can coexist with "conscientiousness" and they do not contradict each other.

Why is it necessary to bring enterprises to the market? This is determined by the role of market. First of all, market is the basic distributor of social resources. Nowadays, the scope and relative proportion of products produced under mandatory plans have reduced remarkably, making it necessary to pay attention to the role markets play in distributing resources. Second, market is the base for readjusting the product mix and industrial structure. This point is echoed by the view held by some that, in the context of commodity economy, the readjustment of total demand and total supply depends on planning while structural readjustment depends on market. Third, market is an important force for promoting economic efficiency. The economic efficiency of an enterprise has to be assessed by the market in the end,

as only when individual labor is lower than socially necessary labor can it reap profits. Fourth, market behavior is a standardized and contracted form of economic behavior and market exchange is "contractual economy," "legal economy," and "credit economy." Fifth, market is where the ordered operation of commodity production takes place. Sixth, market is the basis and object of the function of macroeconomic regulation and control. Since it is impossible to realize sustained, steady, and coordinated macroeconomic development through the self-regulation of market, it is imperative to overcome the negative effect of market through regulation effected by planning. Market guides enterprises and enterprises are the subject of market. In giving play to the regulatory role of market, we should not weaken, but strengthen, macroeconomic management, or else it will become a laissez-faire market economy.

Today, large and medium state enterprises are still under a great deal of administrative interference which deters them from entering the market. On the other hand, the preliminarily established market is far from perfect and enterprises run into many difficulties and problems after entering the market. Therefore, in order to give play to the due functions of the market, it is still necessary to speed up the building of market while pushing ahead with enterprise reforms in greater depth and truly giving operational autonomy to enterprises.

In transforming the enterprise operating mechanism, solving the problem with the property right mechanism is very important. It should be made clear that state enterprises should become not only operators but also owners in the capacity of legal persons, or else they do not deserve the title of relatively independent commodity producers. The reason is very simple: In the context of commodity economy, commodities are owned by different owners, the exchange of commodities is by nature an exchange of ownership, and the competition is that between different owners. It is necessary to consider forming a dual property right structure. Such a structure has two implications: First, the state enjoys the legal ownership of the state-owned enterprise assets, also known as possessing ultimate ownership, while the enterprise enjoys operational ownership of the enterprise assets, also known as possessing the property right in the capacity of a legal person. Second, state assets are divided into two portions, the stock portion going to the state and the newly increased portion going to the enterprise. Naturally, however, this portion of assets also belongs to the whole people ultimately. Establishing such a dual structure of property right will strengthen the competitiveness and increment capacity of the enterprise.

Feng Baoxing [7458 1405 5281] (research fellow with the Jilin Province Research Center for Economic, Technological, and Social Development) maintains that the financial system characterized by unified state control over income and expenditure is the cornerstone and pivot of the planned economy mode. Unified state control over income and expenditure enabled the government to keep a firm hold of the right to price enterprises product, setting the prices of the less processed products under

their value and the prices of the further processed products above their value, so that part of the value of the less processed products can be materialized in the prices of the further processed products. Afterward, through "unified state control over income," the net income of state-owned enterprises is all gathered in the "big pot" of the state finance authorities by way of profit and tax delivery; then through "unified state control over expenditure," the enterprises which are operating at a loss because the prices of the products they turn out have been set too low are subsidized and funds are earmarked for enterprises which, according to state plans, need expansion. Under this system, enterprises are not relatively independent economic entities. They cannot develop themselves when making profits, nor can they choose to shrink when losses occur. They do not have the function of self-accumulation or the risk of bankruptcy.

The basis of the socialist planned commodity economy is that enterprises under ownership by the whole people become commodity producers with the capacity for self-transformation and self-development and can achieve expanded reproduction through their own accumulation. If the enterprises under ownership by the whole people do not have the right or mechanism for expanded reproduction and are allowed only to mark time in the sphere of simple reproduction, this economic mode will still be planned product economy, instead of planned commodity economy, no matter how advanced other reforms are.

In view of the positive and negative experiences in the practice of reform in recent years, to enable the enterprise to transform and develop itself, an unavoidable question is how the net income of the enterprise is to be divided between the state and the enterprise. Only when the enterprise is given a proportion of its net income which is commensurate with the process of its expanded reproduction, can the enterprise's due functions and mechanism for expanded reproduction come into being and the replacement of the old system with the new one be truly realized.

For enterprises different in organic setup or in age, for them to embark on the path of a benign cycle with the capacity for self-transformation and self-development, it is absolutely necessary to let them retain 30, 40, or 50 percent of their net income.

Chen Ji [7115 7535] (from the All-China Federation of Trade Unions Policy Research Office) maintains that the purpose of transforming the operating mechanism in socialist enterprises is to give better play to the advantage of public ownership. As the orientation of the current trial implementation indicates, there are only two problems that need to be properly settled: One is that enterprise management should gradually be separated from government administration, so that enterprises can truly operate on their own initiative and assume sole responsibility for profits and losses; the other is the need to break the big mess pot and the iron

bowl and mobilize the workers' enthusiasm. Under the precondition of adhering to the socialist nature of enterprises and guaranteeing the status of workers as masters, the following issues should be clearly understood:

1. Relying on the working class is the fundamental guiding principle that our party has always upheld. The working class refers to the broad working masses, not just to industrial workers. In an enterprise, the working class covers both managing personnel and workers, and both physical workers and white-collar workers. To correctly understand the principle of relying on the working class, it is necessary to make a point of mobilizing the enthusiasm of both parties. Specifically speaking, it is necessary to put the enterprise managers in a correct relationship to the ordinary workers in running the enterprise properly by relying on the latter.

2. The essential requirement for running the enterprise properly by relying on the working class is to respect and support the workers' democratic rights as masters. Both managers and workers are part of the working class and they are on equal and comradely terms with each other. In the process of production and other operations, one party is in the position of management and the other party is being managed, so conflicts often occur. To resolve these conflicts correctly, it is necessary for the managers to adopt the idea of wholeheartedly relying on the ordinary workers and, in the same breath, rectify the wrong idea held by some people that "since workers are masters, they should make decisions and public servants should carry them out." The working class status as masters should mainly find expression in the right of democratic management. The workers' right of democratic management is collective, not individual, exercised through the organizational system. By implementing the "Enterprise Law," democratic management is also realized. In view of the five rights of the workers' representative conference stipulated in the "Enterprise Law," the following three issues in comprehensively exercising democratic management should be properly tackled: 1) Ordinary workers should be included in discussions on the plans for the enterprise development; 2) in deepening such internal reforms as that of the wage system, it is necessary to be open, just, and rational and trade unions should give energetic support to these reforms and help managers properly solve the contradictions arising therefrom; and 3) it is necessary to make a good job of the democratic appraisal of cadres and bring cadres and the masses closer together.

Supporting workers in becoming masters also requires the management of an enterprise to embody participation by all personnel. The enterprise contract system is not the same as the rural contract responsibility system on a household basis with remuneration linked to output because it is not the manager's individual behavior, but the collective behavior of all the workers. It is necessary to establish a mechanism similar to that which operates in SISC is termed as "all-personnel contracting and joining efforts in guaranteeing good management." This

way, workers and the enterprise can be integrated into an interest-sharing body and the cohesiveness of the enterprise can be reinforced.

3. In relying on the working class, it is also necessary to carry out propaganda. The changes in the Soviet Union and East European countries indicate that once the leadership by the party and Marxist guidance are gone, the working class will plunge into a state of disunity, retrogressing from a "class-for-itself" to a "spontaneous class." We must remember this bitter lesson. Today, in many enterprises, the labor discipline, technology discipline, and safety discipline are very lax and the basic management is very weak. Trade unions should support managers in exercising rigorous management. However, rigorous management is not the same as replacing education with the imposition of penalties and rigorous management should be integrated with education.

4. In relying on the working class, it is necessary to give full play to the role of trade unions. The party should keep firm control of the leadership over trade unions, so that they become the ties and bridges between the party and the masses which can reflect the voices and demands of the working masses. To effectively carry out the work on trade unions, the following two aspects should be given due attention at present: First, we should pay attention to the tendency toward spontaneous unionism in some places where trade unions are weak, and still less, can we tolerate the emergence of spontaneous organizations. Second, we should make a point of listening to and reflecting the viewpoints of the working masses, which is conducive to correct decisionmaking by government organs.

**Song Tingming [1345 1694 2494] (from the State Structural Reform Commission)** maintains that in transforming the enterprise operating mechanism, it is wrong to stress the need for enterprises to draw their attention to their interior only. Instead, they must set their eye on creating external conditions and sorting out the following three relationships:

1. The relationship between the economic system and enterprise mechanism. This is a relationship between the determinant and the determined. Only through structural reform can the mechanism be formed, not the other way round. The mechanism is a derivative of the system and is hard to transform before the system changes. The old economic system of our country is characterized by "three state monopolies," namely, the "state monopoly of material distribution and supply" in production, "state monopoly of purchase and marketing of the products" in circulation, and "state monopoly control over income and expenditure" in distribution. In order to form a new enterprise mechanism, it is imperative to conduct structural reforms, which will mainly involve the reforms of the planning system, monetary system, and financial system. But the key lies in reform of the financial system. At present, the large and medium state-owned enterprises in our country are responsible for 65 percent of the state's revenue with 45 percent of

the national industrial output value. If this pattern remains unchanged, the enterprises will have no chance to survive. Therefore, in the future reform of the tax system, it is necessary to practice fair sharing of taxes and equality between state-owned enterprises and private ones, instead of installing such systems as that of separating taxes and profits or revenue-sharing. The same tax rate and varieties of taxes should apply to all economic legal persons. Only this way can enterprises have a rational starting point.

2. The relationship between the market system and enterprise mechanism. Without the establishment of the socialist market system, enterprises would have no foundation for operations and an enterprise operating mechanism with vitality and vigor would not be formed. As to the relationship between planning and market, common understanding should be sought on the following issues: The first is the issue of their natures. Planning and market, as two modes of resource distribution and two means of economic regulation, are a product of socialization, modernization, and commercialization and have no natural connection with the social system. The essential difference between the capitalist commodity economy and socialist planned commodity economy lies in the difference of ownership. Second, planning is to market as subjectivity is to objectivity. No matter how circumspect a plan is, it is a subjective reflection of the objective economic relations and market is an objective reality independent of subjective cognition. Only when a plan conforms to reality can it play a big role. Therefore, only by suiting the market needs can enterprises have vitality and survive. Third, the basis for the integration of planning and market is the law of value and the principle of exchanges of equal value. Specifically speaking, the integration should be made on the basis of the socialist market system, including the consumer goods market, means of production market, money market, technical market, labor market, information market, and property market. Only when these seven major markets are established and developed can enterprises obtain various essentials for production and other operations from the market system and truly enter the market.

3. The relationship between the policy for economic development and enterprise mechanism. If the policy for economic development does not fit, even the best enterprise mechanism can go wrong. An analysis of the statistics of 40 years indicates that both inadequacy and overheating of economic development in our country have been directly connected with the overall size of investment in fixed assets. The specific correlation is: An increase of 1 percent in the overall size of investment in fixed assets means an increase of 0.7 percent in the total output value of the national industry; an increase of 1 percent in the total output value of the national industry means an increase of 0.7 percent in the state revenue. Thus it can be calculated that a 1 percent increase of the investment in fixed assets will bring about an increase of 0.5 percent in the state revenue. Restricted by the



financial formula of "determining income by expenditure," with an approximate 15 percent rigid increase in annual financial expenditure in our country, the revenue must increase at a steady annual rate of 8 percent. To satisfy this requirement, the overall size of investment in fixed assets has to increase by 15 percent and the total output value of industrial production has to increase by 11 percent. Only this way can the economy develop in a balanced way. In recent years, macroeconomic control over the total demand and total supply has been too tight: Investment reduced but output had to be kept up, which naturally caused stockpiling of products and serious losses to enterprises. That is why the blame for reduced economic efficiency should not be entirely shifted onto enterprises.

### QIUSHI Urges Opening Chang Jiang Cities

HK1309010792 Beijing QIUSHI in Chinese No 15,  
1 Aug 92 p 43

[Article by staff reporter: "Seize Opportunity, Open Wider—Summary of Symposium on Opening Up by Five Cities Along the Chang Jiang"]

[Text] The symposium on opening up by five cities along the Chang Jiang (Chongqing, Yueyang, Wuhan, Jiujiang, and Wuhu) was held in Lushan's Jingwei Guesthouse on 15 and 16 July. The symposium, jointly sponsored by the Economic Department of QIUSHI, Jiangxi Commission for Restructuring the Economy, and Jiujiang People's Government, was held after the CPC Central Committee and State Council made the strategic decision to further open up the cities along the Chang Jiang, with Shanghai's Pudong as the dragon head. Leaders and comrades in charge of the departments concerned from the five cities, and representatives from press units totaling over 40, took part in the symposium. Focused on opening the five cities along the Chang Jiang, the participants made enthusiastic speeches and held thorough discussions.

The participants reached a consensus on the great significance of opening up the cities along the Chang Jiang. Over the past 13 years, China's policy of opening up was focused on the coastal areas, which was absolutely necessary as it played an exploratory and demonstrative role of opening up for the whole country. The central authorities have now proposed further opening up the cities along the Chang Jiang and border. Based on opening up the coastal areas, this will be of great significance to the establishment of the overall opening up structure characterized by "coastal areas—along the Chang Jiang—along the border," to implementing China's strategic goal of "all directional and diverse" opening up, to spreading the wind of opening up to the interior, and to promoting the economy along the Chang Jiang. The Chang Jiang occupies an important position in China's national economic and social development. With a population of 400 million, the Chang Jiang valley accounts for one-fifth of the country's area and total industrial and agricultural output value here accounts for over 40 percent of the country's total. With abundant resources,

convenient transportation, large numbers of cities, developed markets, and a galaxy of talent, these areas combine China's natural topographical superiority and comprehensive social economic development superiority. Apart from great potential for development, they also have bright prospects. In opening the Chang Jiang to the outside world by using foreign investment, importing advanced technology and qualified personnel, and developing an international market, we can expand the scope and accelerate the pace of the Chang Jiang's development and increase the staying power for national economic development.

In opening up the Chang Jiang wider to the outside world, the five cities have both opportunities and challenges. For this reason, the representatives pointed out: To do a good job of opening up the Chang Jiang to the outside world, it is necessary first to emancipate the mind, break with superstition, seek the gap in connection with practice, and genuinely solve and overcome the problem of understanding, which has hampered the initiative of man for a long time in the past. It is necessary to increase the sense of taking economic construction as the central task; make joint efforts to grasp economic work; further understand the importance and urgency of opening up; develop new thinking, methods, and ways in opening up; enhance a sense of commodity economy; overcome the small peasant mentality which is satisfied with having enough to eat and which do not want to take risks and take bold steps ahead; run affairs according to economic laws; foster an overall point of view; prevent and overcome a sense of narrow-minded departmental interests; and establish the strategic thinking of taking the whole area into account.

To open up wider to the outside world, it is necessary to deepen reform. The representatives pointed out: Compared with the coastal areas, the cities along the Chang Jiang have lagged behind in opening up. The old system has seriously hindered the pace of opening up wider to the outside world. Therefore, it is necessary to overcome the "leftist" ideas and outmoded concepts through deepened reform and delegate greater decisionmaking powers to enterprises so that all the policies and measures will coordinate each other and be gradually improved. Reform requires exploration and bold thinking, action, pioneering spirit, and practice. The correct things should be boldly spread while the wrong ones should be corrected.

Opening up is the important way and means of promoting and bringing along development. The representatives said: We should grasp opening up focused on development and promote development through opening up. We should develop new products, technologies, and trades through opening up; resolve the problem of unitary industry, backward technology, outmoded products of the cities in the interior; and instill vitality for their economic development. It is necessary to constantly make use of resources, increase the comprehensive utilization rate of resources, and increase economic efficiency through opening up. We should

combine the use of foreign capital with old enterprises through opening up and accelerate the pace of technical transformation and the upgrading of products.

To do a good job in developing and opening up the Chang Jiang, it is necessary to take the road of joint cooperation. The representatives pointed out: The diverse natural topographical conditions of the Chang Jiang and the comprehensive advantages of social economic development determine that the Chang Jiang should be developed and opened up by means of joint cooperation. If the whole is broken up into parts, barriers are erected between regions and market access is blocked, making it difficult to give full play to the Chang Jiang's advantages. Moreover, only half the results will be attained with twice the effort which may even turn out to be a negative effect. For this reason, the relevant state departments should offer overall development plans for the Chang Jiang's development and opening up as quickly as possible. Based on the overall planning, the provinces, key cities, and the medium and small economic regions should cooperate with each other and strengthen lateral ties. With Shanghai's Pudong as the dragon head, it is necessary to enhance connection and continuity of policies so that the dragon head, body, and tail can move together. Coordinated action should also be taken in distribution of productive forces, industrial structure, transportation and communications, use of resources, protection of the Chang Jiang's ecological environment, and market development.

The building of an investment environment constitutes an important part of opening up. The representatives said that this should be regarded as a protracted basic work, which occupies an important position in opening up. The building of the hard investment environment should meet international standards. The building of all kinds of soft environment should also be enhanced so that the relevant policies and measures are up to international standards. It is also necessary to vigorously develop the tertiary industry and train large numbers of export-oriented economic professionals who are proficient in business, good at operation and management, and dare to open up new situations.

## PROVINCIAL

### Fu Xishou Solicits Investment From Hong Kong

92CE0705A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 32,  
17 Aug 92 p 22

[Article: "Anhui Governor Fu Xishou Leads Delegation to Hong Kong To Attract Business"]

[Text] Anhui Governor Fu Xishou [0265 6932 1108] led a delegation from the Anhui Peoples' Government on a visit on 12 August to Hong Kong, where they held a meeting on publicizing their efforts to attract foreign investment on the 50th floor of the Huarun Hotel.

Anhui Province is a landlocked province in east China close to the sea. It is surrounded by the Yangtze Delta, and is the site of one of the mainland's newly opened forward positions. It has an area of 139,000 square kilometers, and a population of more than 57 million. Within its boundaries are rich natural resources, and its scenery is quite beautiful. It has proven deposits of 64 types of minerals, with the dominant minerals being coal, iron, copper, sulphur, limestone, and alumstone; the output of grain, cotton, oil, hemp, tea, tobacco, silkworm cocoons, fruit, medicinal materials and livestock ranks Anhui in the top 10 nationally. Southern Anhui is the location of Huang Shan, with its exotic pines, strange rocks, seas of clouds, and unparalleled hot springs. UNESCO has put Huang Shan on its list of the worlds natural historical legacies. Jiuhua Shan is one of China's four main famous Buddhist scenic spots, and sports numerous temples. Taiping Lake is located between Huang Shan and Jiuhua Shan, and is surrounded by green hills, with thousands upon thousands of blue waves. The favorable natural conditions are pregnant with singular scenery of hills and water, and Anhui's historical sites are redolent of times long past, and with its human landscape, it enjoys exceptional advantages in terms of tourism resources, with more than 260 historical sites throughout the province.

Anhui Province is one of China's major national agricultural production regions, and agricultural output clearly dominates, with basic industry and basic facilities being comparatively good, and the province has a certain strength in terms of scientific education. Hefei City is a major national scientific base, with more than 80 types of scientific research organizations, and 13 institutions of higher learning. The Hefei Scientific and Industrial Park, currently under construction, is one of the country's newest high technology industrial bases.

At the meeting, Governor Fu Xishou noted that over the last several years, Anhui Province has worked to improve its investment environment, strengthened work on basic infrastructure, and created a comprehensive transportation program involving highways, railways, water transport, and air transport. Program control telephones are now spread throughout the province in all locales, and communication conditions have been greatly improved. This year Wuhu City received state approval to become one of five river based open cities, and the Wuhu port has already realized the opening up of external transportation links. The provincial government has drafted a set of preferential policies for attracting foreign investment, and has accelerated the conditions for opening to the outside, and conditions are maturing day by day. In accordance with the requirements of "a high starting point, outward oriented, covering all directions, and modernization," we will give priority to building Wuhu, Maanshan, Anqing, Tonglu and Hefei, as well as Huang Shan, and promote the entire province economically on a new platform.

Governor Fu stated that Anhui Province, in accordance with the spirit of Deng Xiaoping's southern tour statements, is again looking closely at a development strategy encompassing the entire province. This requires a high starting point and the development of an outward oriented economy. Of principal importance is grasping the "one line two points" concept, namely, the river side outward oriented economic belt and the Hefei new high technology industrial development zone, and the Huang Shan tourism industry. At the same time, major efforts are being devoted to opening to the outside, in the special economic zones and Pudong a base is being established, while outside the country foreign trade channels are being set up, so as to the greatest extent possible push industrial enterprises towards the international market.

Anhui's Planning Committee Chairman, and commercial delegation head Zhang Ping [1728 1627] released a list of items for which the province has attracted foreign investment. This list altogether contains more than 800 items, with plans to use foreign capital totalling \$4.7 billion, involving agriculture, energy resources, metallurgy, the chemical industry, medicine, construction materials, machinery, electricity, light industry, textiles, transportation, tourism, urban construction, etc., primarily allocated to the provincial capital of Hefei, Wuhu on the banks of the Yangtze River, Maanshan, Tonglu, Anqing, and the tourist spot of Huang Shan. Zhang Ping pointed out that for the items on this release, the primary trend in investment is to introduce foreign advanced technology and equipment to transform traditional industries and existing enterprises, to set up resource tapping type, foreign exchange earning export type and import substitution type industries; exploit natural resources, and develop basic industries such as transportation, as well as the three industries of tourism, information, and service, with no restraint on modes of investment. Zhang Ping noted that no matter what locale a foreign business comes to in Anhui Province, no matter what item it selects, and no matter what method it uses, Anhui Province will provide close cooperation (the "advising services" section of this issue notes selected items from the list).

During the meeting, an attract business delegation of mayors from Hefei, Wuhu, Maanshan, Tonglu, Anqing and Huang Shan and an economic trade delegation made up of the provincial Foreign Economic and Trade Committee and various import export corporations discussed various types of cooperation possibilities with local Hong Kong economic business circles.

Anhui Province's International Trust and Investment Corporation is using a combined capital method to cooperate with the Anhui Post and Telecommunications Office, and Hong Kong's Akeqiner Electrical Company is introducing the S-1240 program control switching equipment, including 10,000 long distance phone units, and 100,000 urban phone units, for a total of \$13.3 million. The Anhui Technology Import Export Corporation is cooperating with the Anhui Textile Mill, to

introduce 120 air-jet looms from the Japanese Marubeni Joint-Stock Corporation. The total investment is \$4.75 million. The Anhui Import Export Corporation will introduce from the Italian GD Corporation two cigarette packers in the Bangbu and Yinghu Cigarette Factories with a total investment is \$4.25 million. Contract signing ceremonies for the above items were held recently in Hong Kong.

Anhui has adopted a policy of opening for the development of Huang Shan tourism facilities, and no matter whether it is transportation, communications, guest houses, recreation facilities or dining establishments, all types of investment are welcome. The Hong Kong China Hotel has combined investment to build Huang Shan tourist facilities, and a signing ceremony was recently held. The Hong Kong China Bank also has a relatively large combined investment and cooperative projects with Anhui Province, and both sides had further talks. Governor Fu recently attended a meeting summary signing ceremony.

#### **New Measures To Realize Heilongjiang Economic Goals**

92CE0685B Harbin HEILONGJIANG JINGJI BAO in Chinese 1 Aug 92 p 1

[Article: "Province Proposes Measures To Ensure Economic Rise"]

[Text] Widen Extent and Breadth To Intensify Reform With the Goal of Building a Socialist Market Economy Operating Mechanism

First, streamline government and delegate authority for a transformation of government functions. The principle of "timely, in-depth, and coordinated" delegation of authority should be employed to give to prefecture governments, counties and townships, and grassroots enterprises the authority that they deserve to be given. This authority should be delegated promptly and sufficiently, every level of government retaining only the amount of authority needed to do its job. Government agencies should be streamlined along the lines of "keeping government small, society doing most of the work," and the number of redundant personnel reduced for an increase in efficiency. In the transformation of government functions, departments in overall charge should concern themselves mostly with strategy and the maintenance of overall balance. Managing bodies of respective industries and trades should devote their efforts to vocational planning and market guidance. Reform of the planning system should be accelerated. Only the state, not provinces, should issue command-style plans, and every effort should be made to reduce to the minimum the number of state command-style plans. Products for which the supply exceeds or equals demand should be removed from plan control. Products for which the demand is greater than the supply, the government should strive to place under economic contracts through guidance-style planning and placement of orders for

goods through contracts, using market regulation to the greatest extent for the allocation of resources. Regulation and control of investment throughout society should be changed from command control to guidance-style control. More enterprise investment decision-making authority should be delegated, enterprises themselves balancing production conditions under guidance of state industrial policy and industrial development plans. Enterprises should have the right to use funds that they have raised themselves for construction of a productive nature and for the building of living and welfare facilities. They should also be able to initiate projects, make feasibility studies, and begin work on projects without the further filing of reports requesting government approval, being required only to file a memorandum for the record with departments in charge for inclusion in annual investment plans. The area for provincial and prefecture (or city) investment should be defined, prefectures granted greater examination and approval authority. Prefecture examination and approval authority should be increased to cover projects costing less than 30 million yuan.

Second is removal of price controls throughout society, making full use of price guidance. Restrictions cannot be lifted on state controlled prices for the time being; instead, flexible and diverse accommodations must be made. Restrictions should be completely lifted at an early date on prices that the province controls. First, prices on goods consumed every day should be lifted, the three color labelling system abolished, prices becoming completely market controlled. Second, prices of the means of production should be freed from controls, and the two track price system abolished beginning in 1993. Third, as the quality of services improves, restrictions should be removed on prices that tertiary industries charge for services; and fourth, so long as fulfillment of state procurement quotas can be ensured, restrictions on grain prices should be completely lifted in 1993.

Third is liberalization of controls and limitations on business activities in the commodity circulation realm, and establishing a large commodity circulation system. Standards and conditions for the examination and approval of applications to operate all kinds of economic entities must be liberalized, economic entities permitted to expand their scale of operations so long as they comply with legally prescribed procedures and conditions. Within the limits of their authority, provinces should widen the rights of all economic entities to develop foreign economic relations and trade, border trade, and technical cooperation. They should permit transsectoral, transindustrial, and transregional dealings, and reduce the kinds of monopoly sale, exclusive sale, and specially controlled commodities. They should abolish controls over the export of goods from the province, and scrap "local policies" that various prefectures and counties have drawn up that impede market development and commodity circulation. They should also abolish the various illegal highway checkpoints.

Fourth is accelerated establishment and perfection of a social security system, and active pursuit of housing system reform.

#### **Major Effort To Build More Markets and Perfect the Market System**

First, while demolishing industrial monopolies, widening the scale of business dealings, and increasing the range of services, a good job should be done in operating markets for all kinds of economic goods and services. Financial markets should strive to broaden financing avenues, getting large domestic and foreign banks and financial institutions to set up branches and offices in the province to increase the availability of domestic and foreign finance capital.

Second is an increase in the scale, the quality and the level of the various kinds of specialized markets in the province, greater building of basic facilities, the provision of advanced scientific techniques, improved management, encouragement of the use of international practice and trading regulations, and practicing fair trade.

Third is to make use of the role of intermediary market institutions as bridges and bonds. Major efforts must be made to develop economic law services, scientific and technical patents, market control, professional introduction, quality authentication and monitoring, and consulting service agencies in the gradual fashioning of a market intermediate system that links closely together basic level production units with ultimate market customers.

Fourth is rapid establishment of a market regulation system to ensure operation of the socialist market economy according to law. Attendant local market regulations must be drafted that both standardize the market operating mechanism and standardize enterprise conduct to ensure that the various players in the economy including enterprises under ownership of the whole people, collective enterprises, individual enterprises and three kinds of partially or wholly foreign-owned enterprises trade in the market as equals under the law, competing equally and fairly.

#### **Further Widening of the Opening to the Outside World To Stimulate Economic Development Throughout the Province**

The first requirement is to obtain investment from outside the province and to enter into cooperation outside the province. The share system must be adopted, a Heilongjiang Province investment corporation founded outside the province. To solve cross-border barter trade final settlement problems and make economic and technological cooperation between both parties easier, a Sino-Russian Cooperative Bank and Final Settlement Center should be founded.



Second is vigorous development of border economic cooperation zones and economic and technical development zones to provide a vast field for widening the opening to the outside world. All border cities, counties, and townships having requisite conditions can operate border economic cooperation zones at their own expense to remove obstacles to people-to-people market trade, and to operate bonded warehouses and bonded industrial factories.

Third is the granting of foreign economic relations and trade rights to large and medium size enterprises that meet requirements so that they can take part in international market competition. The separation between domestic and foreign trade must be removed, large and medium size enterprises gradually becoming foreign economic relations and trade entities.

Fourth is the development of multilateral trade and multilateral cooperation for the implementation of a multiple market strategy. The Russian Far East market should be jointly developed through multinational cooperation, including Sino-Korean, and Sino-Japanese cooperation, changing direct bilateral trade into indirect multilateral trade and cooperation.

#### **Active Impetus to Scientific and Technical Progress To Hasten the Translation of Science and Technology Into Productivity**

First is giving paramount position to the build-up of science and technology. Scientific and technical units should be permitted to merge with enterprises, and enterprises should also be permitted to operate their own research facilities. Scientific and technical personnel should have the right to work in second jobs and be legally compensated so long as they complete the work in their primary job. Whenever scientific research results are translated directly into economic returns, between 4 and 10 percent of the increased returns from the sale of products might be deducted to provide bonuses to the unit and the individuals who made the contribution.

Second is use of the role that scientific and technical progress plays to emphasize the crucial link of translating scientific and technical achievements into productivity. Banks should establish special loans for the translation of scientific and technical achievements into productivity, and the insurance sector must run trials on the science and technology insurance business. Governments at all levels should use a portion of current investment funds for the establishment of a special fund for the translation of scientific and technical results that should be used to help needy enterprises renovate, or expand projects on new technology.

Third is the need to industrialize high and new technology to lay the groundwork for economic prosperity. Emphasis should be placed on the development and application of high and new technologies such as biological engineering, sensors, and electromechanical integration.

#### **Building of a Fine Fund Raising Mechanism To Ensure a Fairly High Investment Rate**

Avenues for the raising of construction capital must be further widened. One way to do this is to take the initiative in obtaining a central government investment of approximately 20 billion yuan. A second way is to broaden collections for the key construction fund to raise 2.5 billion yuan. A third way is for all levels of government and enterprises to strive to raise 21 billion yuan through their own efforts. Fourth is an increase in the special loans for construction and transformation of all banks and financial institutions to obtain more than 9 billion yuan. Fifth is the use of 6 billion yuan in foreign capital; and sixth is to raise money by instituting a share system, auctioning off small enterprise, and issuing enterprise debentures. The foregoing measures can concentrate scattered funds, thereby turning consumption funds into construction funds.

In addition, investment institutions throughout the province must make corresponding readjustments. Investment in capital construction must tilt in two directions. One is a tilt toward basic facilities in plan, key industrial projects, and major high and new technology industrial projects. The second is a tilt toward tertiary industries. The main investors are prefectures, municipalities, counties, collectives, and individuals.

## **FINANCE, BANKING**

### **Foreign Banks Have Difficulty Entering Market**

92CE0653B Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 8, 1 Aug 92 p 62

[Article by Wang Yangshang: "Foreign Banks Continue Knocking, Official Door Remains Closed"]

[Text] Although foreign banks are allowed to establish branch offices in China, the scope of their operations is still limited because they are prevented from transacting business in renminbi. The main issue is: Trade and project financing by foreign banks is allowed because the money needed for such activities comes from abroad. However, allowing foreign banks to offer banking services using renminbi would be giving them the opportunity to make a profit from Chinese currency.

Mainland China has recently decided to open its market to the tertiary industry. Naturally, foreign banks are eager to take advantage of this opportunity. Officials on the mainland, however, still have certain reservations about this policy. It is unlikely that they will permit the hasty liberalization of the financial sector in China. Hence, foreign banks will continue to be prohibited from conducting business in renminbi (retail banking services). Prying open this tightly closed door will not be an easy task for them.

Many foreign banks have already established branch offices in several large cities throughout China. These cities include Shenzhen, Guangzhou, Shanghai, Beijing, and Xiamen. Among the foreign banks with representative offices in these cities, the most notable are: The Hong Kong and Shanghai Banking Corporation, The Standard

and Chartered Banking Group, Barclay's, Bank of East Asia, The First National City Bank, Bank of America, Banc de l'Indochine, Credit Lyonnais, and the Sanwa Bank.

All foreign banks on the mainland are engaged in trade and project financing. In other words, they are only permitted to offer nonretail banking services. As long as the authorities continue to prohibit foreign banks from conducting business directly with renminbi, these banks are prevented from making loans in Chinese currency since they cannot accept renminbi deposits. The scope of their operations will continue to be severely restricted as long as this prohibition remains in place. The lifting of this restriction would open up a tremendous market. Taking into account Mainland China's population of one billion people, it is officially estimated that savings among the general populace would exceed 900 billion yuan. Where else, except in China, can such a potentially vast market be found? Therefore, it is understandable why foreign banks are longing to tap into this huge but still dormant market.

When foreign banks establish representative and branch offices in China, their final goal is to obtain the right to transact business directly with renminbi. Recently, the chairmen of the Bank of America and the First National City banking groups went to China with the hope of enlarging the scope of their respective banks' business operations. Persuading the mainland Chinese authorities to allow their banks to conduct business with renminbi was a major item on their agendas. To participate in the development of Shanghai's Pudong district, the Banc Nationale de Paris and the Industrial Bank of China have been discussing the possibility of establishing a joint venture bank (an agreement has recently been reached). During these deliberations, the French bank was also hoping to obtain the right to conduct business with Chinese currency.

Naturally, foreign banks look forward to the day when they can operate freely in China. Nevertheless, officials on the mainland still have many reservations about the further liberalization of China's financial sector. For them, the issue of whether or not foreign banks should be allowed to conduct business with renminbi is not a matter to be taken lightly. At present, trade and project financing by foreign banks is permitted since the money for such services comes from abroad. However, allowing foreign banks to conduct business in renminbi would be giving them an opportunity to base their profits directly on Chinese currency.

Comprehending the reasoning behind such thinking allows us to see why the goal of "comprehensively" liberalizing China's financial market will be difficult to achieve. When foreign banks make project financing loans to Chinese businesses, such transactions are submitted to the authorities for final examination and approval since these transactions often involve large amounts of foreign currency. The reason for such strict scrutiny is simple. The final guarantor for these businesses is the state itself. Hence, the present pace of

liberalization in China's financial markets is likely to lag behind the pace of reform in other sectors of the tertiary industry. In terms of reform and development, the real estate, retail and tourist industries will probably out pace the financial sector.

### Financial Statistics for First Quarter of 1992

92CE0653A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 29, 27 Jul 92  
p 36

### [Text] China-Financial Statistics for First Quarter 1992

#### State Credit Revenue and Expenditures (Unit: 100 Million renminbi)

| Item  | Remaining Amount for<br>End of First Quarter 1992 |
|---|---|
| Various Deposits  | 16113.37  |
| Enterprise Deposits   | 5464.51   |
| Financial Deposits  | 611.57  |
| Institutional and Group Deposits                                      | 675.74  |
| City and Town Saving Deposits   | 7404.87   |
| Rural Deposits  | 1189.60   |
| Other Deposits  | 767.08  |
| Securities  | 134.36  |
| Debt Owed to International Financial<br>Organizations                 | 184.67  |
| Currency in Circulation   | 3117.18   |
| Banks Own Funds   | 1935.48   |
| Other   | -438.54   |
| Total Source of Funds   | 21046.52  |
| Various Loans   | 18339.45  |
| Industrial Production Enterprise Loans                                | 4376.14   |
| Enterprise Loans for Supply and Mar-<br>keting of Goods and Materials | 727.01  |
| Commercial Enterprise Loans   | 6661.01   |
| Construction Enterprise Loans   | 748.02  |
| Collective Enterprise Loans for Cities<br>and Towns                   | 964.12  |
| Individual Commercial and Industrial<br>Loans                         | 17.55   |
| Agricultural Loans  | 1273.98   |
| Fixed Asset Loans   | 3076.66   |
| Other Loans   | 494.96  |
| Gold Holdings   | 12.04   |
| Foreign Currency Holdings   | 1334.17   |
| Assets Held in International Financial<br>Organizations               | 263.37  |
| Financial Loans   | 1097.49   |
| Total Amount of Funds Used  | 21046.52  |

**Savings and Loans for Rural Credit Associations**  
(Unit: 100 million renminbi)

| Item                                  | Remaining Amount for End of First Quarter 1992 |
|---------------------------------------|--|
| Various Deposits                      | 2925.23  |
| Collective Agricultural Deposits      | 124.81   |
| Town and Township Enterprise Deposits | 184.68   |
| Farmers Saving Deposits               | 2551.14  |
| Other Deposits                        | 64.60  |
| Various Loans                         | 2092.33  |
| Collective Agricultural Loans         | 187.76   |
| Town and Township Enterprise Deposits | 184.68   |
| Farmers Loan                          | 770.07   |

**Currency Exchange, Foreign Currency and Gold Reserves**

| Item  | 1992    |          |        |
|---|---------|----------|--------|
|   | January | February | March  |
| Currency Exchange: Special Drawing Rights Unit Converted Into Renminbi (end of period amount) | 7.6327  | 7.5526   | 7.4915 |
| \$1 Converted to Renminbi (end of period amount)  | 5.4550  | 5.4693   | 5.4675 |
| \$1 Converted to Renminbi (average amount)  | 5.4481  | 5.4635   | 5.4734 |
| Gold Reserves (10,000 ounces)   | 1267    | 1267     | 1267   |
| Total Amount Foreign Reserves (\$100 million)   | 418.76  | 433.99   | 434.79 |
| State Foreign Reserves  | 229.89  | 230.93   | 239.20 |
| Bank of China's Foreign Reserves  | 188.87  | 197.06   | 195.59 |

**Construction Bank Sets Up Fund Market for Projects**

HK1409034092 Beijing CHINA DAILY in English  
14 Sep 92 p 2

[By staff reporter Zhang Yuan: "Construction Bank To Build a Bigger Fund Market"]

[Text] Xian—The People's Construction Bank of China (PCBC), the country's leading supplier of funds for capital construction, vows to gradually establish a nationwide fund market to raise more funds for both State and local key projects.

China is currently focusing its economic reform on the transformation of the operating mechanisms of State-owned enterprises from highly-planned ones to market-driven ones in order to force the enterprises to be responsible for their own profits and losses.

One important step in realizing such a transformation is the requirement for financial organizations to operate according to market mechanisms and to establish a flexible, efficient financial-market regulation system to make funds flow more efficiently, said Zhou Daojiong, PCBC's President. He was speaking at the fifth conference of the PCBC Fund Network, which opened in this ancient capital of Shaanxi Province on Saturday.

This is because a fund market will play an important role in the operation of a market system, which the country is striving to build, Zhou noted.

A fund market can promote the flow of funds between different areas, improve the gathering, distribution and utilization of funds, direct economic co-operation between different regions and thus help in the development of a market economy, Zhou said.

The PCBC Fund Network, which includes more than 70 of PCBC's municipal branches, is now one of the country's largest fund-raising organizations. Zhou urged the network to experiment in the development of a long and medium-term fund market in the country.

Song Xicun, a representative of PCBC Fund Network's executive council, said at the conference that the network has made substantial contributions to State economic construction by providing syndicated loans, inter-bank borrowing and loans, and the issuing and trading of securities.

In the past five years, Song said, the Network has organized three banking group loans and provided 34 State and local key projects with a total of 614 million yuan (\$113.7 million) in syndicated loans. It is predicted that the projects will turn out 3.3 billion yuan (\$611 million) in output value and make 2.4 billion yuan (\$444 million) in taxes and profits each year when completed.

In another development, the People's Construction Bank of China also announced the launching of its Mastercard in 18 more cities last Saturday, pushing the number of cities where the PCBC card is available to 33.

**Personal Savings Rise Slowly in Shanghai**

OW2709034592 Beijing XINHUA in English  
0305 GMT 27 Sep 92

[Text] Beijing, September 27 (XINHUA)—Savings deposits by Shanghai citizens continue to rise but at a slower pace compared with previous years, according to bank officials.

Preliminary statistics from the Shanghai branch of the People's Bank of China (PBOC) show that total savings deposits in the city rose to about 38 billion yuan (6.91 billion U.S. dollars) by the end of August, up some five billion yuan from the end of last year.

The growth was smaller compared with the 6.2 billion yuan rise during the first eight months of last year.



Figures from the Shanghai branch of the Industrial and Commercial Bank of China (ICBC), the largest savings bank, show much the same trend.

Total savings deposits in ICBC Shanghai stood at 17.98 billion yuan by September 10, up 1.05 billion yuan over the end of last year. But the increase during the same period last year was as much as 2.3 billion yuan.

Bank officials said that income of local citizens has been raised, yet some funds were being absorbed by the city's securities industry. During the months such as March, April, June and July when there were big issues of stocks, the growth of savings deposits was slow.

When more people invest in securities, there is an upturn of the bank's current deposits and a dropping proportion of fixed deposits because they can withdraw their money more easily.

## INDUSTRY

### Article Analyzes Steel Industry Development

OW0110081592 Beijing XINHUA Domestic Service  
in Chinese 2107 GMT 28 Sep 92

["News analysis" by XINHUA reporter Sun Jie (1327 2638): "One Hundred Million Tonnes of Steel—A New Goal of China's Iron and Steel Industry"]

[Text] Beijing, 29 September (XINHUA)—Our country's iron and steel industry, which has made great strides for several consecutive years, has new plans for the fresh spring tide of reform and openness—increasing the quantity and quality of iron and steel "grist" to speed up the national economic mill.

During a recent interview with this reporter, Minister of Metallurgical Industry Qi Yuanjing said: Our country should achieve a new level of steel output during the 1990's. During the Eighth Five-Year Plan, it should prefulfill the annual steel production target of 80 million tonnes, which was originally set for the end of this century. The target for the year 2000 is 100 million tonnes of steel.

A hundred million tonnes of steel represents a heartening figure. Practice has fostered a common understanding that the iron and steel industry can definitely attain the grand goal of 100 million tonnes of steel as long as it follows the policy of reform and openness. A review of the iron and steel industry's development shows that the decade of reform and openness represented the "golden period" for our country's iron and steel industry in the more than 40 years since the founding of New China. Steel output broke the mark of "tens of millions of tonnes" on four occasions during that period, exceeding 40 million tonnes, 50 million tonnes, 60 million tonnes, and 70 million tonnes in 1983, 1986, 1989, and 1991, respectively.

Experts estimate the average growth rates for our country's pig iron, crude steel, and steel products at 5.25 percent, 6.38 percent, and 7.48 percent respectively, from 1978 through 1991. Meanwhile, our country's imported steel products dropped from some 20 million tonnes in 1985 to 3.3 million tonnes in 1991. China joined the ranks of major world steel producers in only seven to eight years.

To be sure, 70 million tonnes of steel is still too low for a large developing country like ours.

Quantitatively, our country's consumption of steel products, calculated on the basis of a 9 percent growth rate in the gross national product, will reach some 100 million tonnes in the year 2000. This figure will translate into 120 million tonnes of steel output. Current output of steel products cannot fully satisfy market demand, with substantial shortages plaguing normal production years. Our country suffered a shortage of some 4 million tonnes in 1991, shortly after its economy had regained a proper growth rate. The country experiences more conspicuous problems regarding the variety and quality of its steel products. It has to import large quantities of quite a few important products because it cannot produce them or can only produce them in limited quantities. These products include oil pipelines, tinplate, automobile plate, and cold-rolled silicon steel plate.

The needs that have arisen from the drive to promote national economic development and the inadequacy of the iron and steel industry itself have made the industry aware that it must not fail to take advantage of the current favorable opportunity to promote its own development, and that otherwise, the progress of national construction will be impeded.

The Eighth Five-Year Plan adopted by the Fourth Session of the Seventh National People's Congress held in 1991 requires China's steel output to reach 72 million tonnes by 1995. It seems now the target set by the plan is obviously a little too easy for the industry.

A relevant personage of the Ministry of Metallurgical Industry said that national steel output may exceed 72 million tonnes this year, and thus, the target set by the Eighth Five-Year Plan can be achieved three years ahead of schedule. Judging from the current trend of development, he predicted annual output of steel to reach or exceed 80 million tonnes toward the end of the period of the Eighth Five-Year Plan.

There are still seven years and three months to go before this century draws to an end. It is necessary for China's iron and steel industry to post a net increase of 30 million tonnes in steel production to reach the "new level" of 100 million tonnes during this period of seven years and more. Some Chinese experts in the iron and steel sector believe there are a number of favorable conditions for China's iron and steel industry to attain this "new level." First of all, the CPC Central Committee and the State Council are concerned about and support the iron and steel industry; and the state has adopted a

series of policies to promote development of the industry. On several occasions in the past two years, Comrade Deng Xiaoping expressed the hope for the iron and steel industry to be able to enjoy accelerated development, and in the speech he delivered during his inspection tour of south China early this year, he mentioned "further emancipate the mind a little more, have a little more guts, and quicken the pace a little more." His speech has greatly encouraged the cadres, staff, and workers of the iron and steel industry and boosted their confidence in accelerating development of the industry. Next, China's iron and steel industry has formed a complete set of production systems and boasted a contingent of well-qualified scientific and technological personnel after construction efforts made in a period of more than 40 years in the past. They constitute a foundation for the industry to progress to a new level. Meanwhile, China's policy of encouraging all sectors to open their doors wider to the outside world has enabled the iron and steel industry to further strengthen cooperation with international counterparts in respect of importation of equipment and raw material.

We should be aware that China's iron and steel industry must raise its production technology to a new level if it wants to fulfill the target of 100 million tonnes of steel output. In this connection, experts of the Ministry of Metallurgical Industry pointed out: It is necessary to seize the current favorable opportunity to concentrate efforts on greatly raising the level of technology as well as equipment; vigorously expand product range, improve product quality, and increase output of various steel products which are crucial for national economic development and which are readily marketable; improve comprehensive economic returns of the industry; and raise the industry's level of intensive management as well as economies of scale. Qi Yuan [passage indistinct] it is a difficult road to reach the level. Backward product range and quality is inseparable from backward technology and equipment. We must depend on new technology and equipment to raise product range and quality to a new level. It is estimated that [words indistinct] are backward by 10-15 years. Only 13 percent of the 70 million tonnes of steel were produced by automated equipment. Backward technology and equipment resulted in high consumption and low efficiency in iron and steel production and led to persistent high cost-per-tonne of steel produced. To address the problems, the Ministry of Metallurgical Industry decided to accelerate technical transformation at large- and medium-sized iron and steel enterprises, expedite the spread of advanced technologies and equipment which have already been widely used abroad, and introduce [words indistinct].

Though the road to the level of 100 million tonnes of steel is not smooth, the strong winds of implementation of reform and the open policy have injected inexhaustible vitality into the iron and steel industry for its development. The 3 million staff and workers of China's

iron and steel industry will surely be able to attain the level of producing 100 million tonnes of steel by the end of this century.

### Adjustment of Shanghai's Textile Industry

HK2809014392 Beijing RENMIN RIBAO in Chinese  
14 Sep 92 p 2

[Article by staff reporter Li Qian (2621 5409): "Seize the Opportunity To Leap Forward—Commenting on Strategic Readjustment of Shanghai's Textile Industry"]

[Text] RENMIN RIBAO editor's note: This commentary is worth reading. How to raise the speed of development? How to coordinate growth speed and economic results? The key lies in structural readjustment. However, structural readjustment may encounter difficulties. How do we solve these problems? In the final analysis, this should still rely on reform and opening. The experience of Shanghai's textile industry has proved this point. [end editor's note]

When a female textile worker took off her work clothes and departed from the machine she had worked on for 20 years, and when she put on the apron of a restaurant, she might not have been aware that she was undergoing a profound structural change which would lead to a thorough transformation of the textile industry in Shanghai, our country's largest base of the textile industry, and would result in restoring its previous brilliance.

In the last two years, the textile industry throughout the country was bogged down in great difficulties, and the textile industry in Shanghai was no exception. To shake off the predicament, in 1990, the Ministry of Textile Industry set forth a new program of rationalizing and adjusting the strategic layout. According to this program, the production of elementary products and products with low additional value was gradually shifted to the raw material producing areas from the old bases of the textile industry in coastal areas in connection with urban industrial restructuring plans so that the old production bases could concentrate their strength on sophisticated processing and on the production of goods with high additional value. This program was appreciated by people in Shanghai's textile industry. The situation of the domestic textile industry showed that Shanghai's product, equipment, and production structures were similar to the raw material producing areas where economic and technological conditions were much more backward, and the two sides were competing at the same low level. Textile enterprises in the raw material producing areas obviously had greater advantages, because they could get sufficient supply of raw materials and had a sufficient low-cost labor force. They did not have to bear heavy burdens; their production costs were lower, and their operation was more flexible. Moreover, they were mostly backbone township and town enterprises, which enjoyed local government guarantees and support in the supply of electric power and raw materials and

also enjoyed favorable policies laid down by local governments. It seemed that to free itself from the predicament, the textile industry in Shanghai had to develop sophisticated processing and production of goods with high additional value so that it could give play to its advantages and offset its disadvantages.

In the last 10 years and more, some developed countries have also been speeding up technological transformation and equipment updating in their textile industry. As a result, this "sunset industry" was changed from a labor-intensive industry into a technology-intensive industry. Take Germany and Italy, the two largest textile export countries in the world, as examples. They import elementary products and raw materials from developing countries, and then export their products through sophisticated processing to all countries throughout the world. They almost monopolize the world market for high-class textile goods and fashions. Foreign exchange earning of each tonne of synthetic fiber in textile goods and garments exported by them is five times as much as that in our country. The sharp contrast most clearly shows where the problem lies. To shake off the predicament, the textile industry in our country must change the current unreasonable production structure, and must set up a reasonable pattern for the division of work between elementary and sophisticated processing. The production of goods undergoing sophisticated processing, having high additional value and strong competitive power in the international market, must rely on the large textile industry bases in Shanghai and other cities.

The textile industry in Shanghai was aware of the importance and urgency of upgrading production and adjusting production layout long ago. However, two difficult problems made it hard for the textile industry in Shanghai to take action in the practical work. First, they needed money to conduct technological transformation for the production of sophisticated and high-class goods and to scrap the old equipment and technology, but how could they get the money? Second, the textile industry in Shanghai employed 530,000 workers. If the production of elementary products was shifted to raw material producing areas, hundreds of thousands of textile workers in Shanghai would have to be laid off, and how should they be placed?

After Comrade Deng Xiaoping's talks during his inspection tour to the south were relayed, the textile industry in Shanghai gained strong mental power and also broadened its vision. Through careful consideration, they formulated a program for strategic adjustment on the basis of further emancipating their minds. According to this program, the two difficult problems in the course of restructuring the textile industry can be smoothly solved in the first stage, and reform can be advanced substantially. People called it a "leap forward" program.

The first "leap" taken by the Shanghai Textile Industry Bureau was to further expand openness to the outside world and develop cooperation and joint investment with foreign companies, thus it could use overseas funds,

technologies, marketing channels and networks to help Shanghai's textile industry narrow the time gap, catch up with the international trend, and quicken the process of converging with the international market. In the first half of this year, 14 new joint ventures with foreign investment in the textile industry were set up with the approval of the authorities concerned, and their total investment reached \$65.61 million. Another more than 50 projects for attracting foreign investment have been approved, and a number of joint ventures are still under negotiations. It is expected that the target of setting up 100 joint ventures within this year can be achieved. This will greatly mitigate the shortage of funds for technological transformation. Take the Yongxin Raincoat Plant as an example. It is a more than 60 year old enterprise, and the "Dadi" raincoats it produces were very famous in the past. Over a long time, the shortage of funds constrained its further development. Recently, the factory launched two joint ventures with overseas investors. One is the Dadi-Baile Garment Company it runs in cooperation with a Hong Kong company, and the new joint venture imported some advanced equipment for producing high-class materials and garments to meet the needs of the international market. The products are exported to the international market through the existing marketing channels of the Hong Kong Baile Company. Another joint venture is the Kaidali Company, which produces high-class fashions, and 70 percent of the products are sold to the United States, Japan, Hong Kong, and other regions through the Hong Kong Shenda Company.

The second "leap" in the strategic adjustment of Shanghai's textile industry was the active and prudent adoption of the joint-stock system. Shanghai's Shenda Textile and Garment Group Company is a conglomerate composed of 54 export-oriented industrial and trade enterprises. However, it was also plagued by the backward state of its technology and equipment, weak competitive power, and lack of development momentum. In the 18 backbone enterprises of the group, 50 percent of the main equipment was "antique," installed before China's liberation. However, the shortage of funds prevented them from modernizing the equipment. This year, with the approval of the departments concerned in Shanghai, the group carried out a pilot scheme for the adoption of the joint-stock system. Through issuing shares, it raised more than 100 million yuan. This not only increased its economic strength for conducting technological development and transformation, but also enabled it to diversify its business operations by investing in the real estate industry in the bonded areas of Pudong and Waigaoqiao. The move effectively invigorated the operation of the enterprise group as a whole.

The third "leap" of Shanghai's textile industry was to shake off the shackles of old management systems, break through the limits of its own trade, and involve itself in tertiary industry. As a result, the textile industry can now be supported by the machine-building industry, commerce, technical consulting and other services. In the period of the Eighth Five-Year Plan, they decided to use

more than 1 million square meters of houses and plants to develop the tertiary industry. At present, some enterprises have taken action and have achieved initial results. The No 2 Textile Mill of Shanghai is a more than 70 year old factory, and a large state-owned enterprise employing 6,300 workers. In the course of reform, it adopted three systems, namely, the state ownership system, the Sino-foreign joint ownership system, and the collective ownership system. Not long ago, it assigned some redundant workers and surplus plant floors to run a number of trade companies, restaurants, coffee shops, and interior decoration firms. The funds for running tertiary industrial enterprises mainly came from funds raised among the workers or from the issuance of stocks. As a result, the number of workers employed by enterprises owned by the whole people was reduced, economic efficiency of the enterprises was greatly raised, redundant workers were placed properly, and workers were glad to see that their income increased.

The old textile industrial base of Shanghai has eventually taken solid new steps forward. Their important action showed people a simple but profound fact: The deep-rooted contradictions in economic development can only be solved through reform and opening up.

## POPULATION

### Inter-Provincial Migration in Fourth Census Analyzed

92CE0624A Beijing RENKOU YU JINGJI  
[POPULATION AND ECONOMICS] in Chinese No 3,  
25 Jun 92 pp 13-19

[Article by Zhang Shanyu (1728 0810 0151), affiliated with the Population Studies Institute at East China Teachers College: "An Analysis of the Data in the Fourth Census on Inter-Provincial Migration"]

[Text]

#### I

Except for in the Xizang region, the fourth PRC census in 1990 included for the first time the following two items on population migration: 1. "Permanent residence on 1 July 1985," which could be compared with current permanent residence to reflect population migration during the five years preceding the census. 2. "Reason for moving to this locality," with the nine possible responses of job transfer, assigned employment, going into business, study or training, to live with relatives or friends, retirement or quitting one's job, moving as dependents, marriage, and other, of which the first four can be summed up as economic migration, and the next four as social migration. Migration across provincial, autonomous regional, or municipal boundaries (hereafter called inter-provincial migration) in this census, refers to that in which transprovincial change-of-domicile formalities were undergone, so that residence underwent a transprovincial change, or that in which change-of-domicile formalities were not undergone, but respondents had been gone from their province

of permanent residence for more than one year, making this migration distinct from intra-provincial migration.

This census data tended to be too low due to the following factors: 1. Multiple moves were counted as only one. 2. Moves out and then back were not counted at all. 3. Moves by those less than five years old or who had since died were not counted. 4. Moves for less than one year were not counted. These factors should be noted when making comparisons with foreign census data.

Projected from a 10 percent sampling of the collected data, the figure on China's inter-provincial migration during the five years preceding this census was 10.836 million people, for an average of 2.167 million a year and an average annual inter-provincial migration rate of 2 percent. While this figure is not only much lower than the 40 percent inter-state migration rate in the United States, but even lower than the more comparable inter-state migration rate in India, showing that China is certainly a country in which population distribution is relatively stable, it is much higher than our 1.2 percent average annual inter-provincial migration rate from 1982 to 1987 (based on a 1 percent population sample), which makes this census data much improved, and shows a marked increase in China's population mobility since we began to reform and open up. While China kept no systematic data on inter-provincial population migration from liberation in 1949 to 1982, various data projections are that it averaged about 1 million people a year, for a migration rate much lower than that in this census, all of which shows that China's inter-provincial migration has certainly grown by leaps and bounds in recent years.

#### II

While China's inter-provincial migration is not large, it still had a decisive impact on the population of all provinces and regions from a comparative perspective, which can be seen in the gross migration rate, net migration rate, and migrant composition.

As we do not have population data with similar specifications for provinces, cities, towns, villages, or other breakdowns at the beginning of the fourth census, all of this article's migration rates are ratios of migration figures to overall population at census time, which might make their numerical values slightly low.

The gross migration rate can show the impact of population migration on a region. The inter-provincial gross migration rate for the five years included in this census was 19.15 percent for China, being highest in the two cities of Beijing and Shanghai at 72.69 percent and 59.84 percent, respectively, second in Qinghai, Tianjin, Xinjiang, and Hainan at less than 40 percent, third in Ningxia, Heilongjiang, Inner Mongolia, Jilin, Zhejiang, Guangdong, and Jiangsu at between 20 percent and 30 percent, and lowest in ones, such as Hunan, Henan, Jiangxi, and Hubei, at 12-13 percent. This shows that inter-provincial migration was highest in the three



municipalities of Beijing, Shanghai, and Tianjin, and second in coastal and border provinces and regions. As our interior provinces are not as developed economically as coastal ones, while having a far larger population than border provinces, they sustained the smallest impact from inter-provincial migration.

As the inter-provincial migration efficiency index was higher than 60 percent for Beijing, Guangdong, and Shanghai, but only 3 percent for Qinghai, there was a large gap between the net and gross inter-provincial migration rates for all provinces and regions, which had a large impact on population figures.

In these five years, there was a net population immigration (in descending order of net in-migration rate) to the 14 provinces and regions of Beijing, Shanghai, Tianjin, Guangdong, Liaoning, Ningxia, Xinjiang, Jiangsu, Hainan, Fujian, Shanxi, Qinghai, Hubei, and Shandong, with the highest net in-migration rate being 50 percent for Beijing, increasing its overall population due to inter-provincial migration by an average of 1 percent a year, which is obviously a sizeable amount. Of these 14 provinces and regions, nine are southeastern coastal ones and three are northwestern border ones, while only two are interior provinces, which had very low net in-migration rates. The three municipalities and one province of Beijing, Shanghai, Tianjin, and Guangdong alone attracted over 70 percent of the inter-provincial net migration throughout China, which shows their high concentration of migrants.

China's other provinces and regions all experienced net population out-migrations, with the interior autonomous region of Guangxi having the highest net out-migration rate of 9.19 percent. These provinces and regions form an almost continuous geographical strip from the southwest through the central plains to the northeast. Sichuan, Guizhou, Guangxi, and Hunan made up China's biggest population out-migration zone, providing over 50 percent of our inter-provincial net migration.

In comparison to its traditional pattern during the first three decades after liberation, China's inter-provincial migration has experienced in recent years a significant turnaround, which I have analyzed in an article entitled "A Great Change in China's Inter-Provincial Population Migration Pattern." (Footnote 1) (RENKOU YANJIU No 1, 1990) The data from this census shows that this reverse trend is not only continuing, but is even becoming sharper in some aspects, which can be seen mainly as follows: 1. A number of traditionally population net in-migration provinces have become net out-migration ones. For instance, the seven provinces and regions of Heilongjiang, Jilin, Inner Mongolia, Jiangxi, Yunnan, Shaanxi, and Gansu experienced a combined average population net in-migration from 1950 to 1982 of about 530,000 people a year, but a combined average net out-migration of over 120,000 people a year during the five years covered in the fourth census. Guangxi, Hebei, and Guizhou, etc., have also changed from a

longstanding population net in-migration or rough balance of in- and out-migration to a key population out-migration zone. 2. Several key population net out-migration provinces have become net in-migration ones. For instance, the one municipality and three provinces of Shanghai, Jiangsu, Shandong, and Guangdong experienced a combined average population net out-migration from 1950 to 1982 of 260,000 people a year, but a combined average net in-migration of 350,000 people a year during the five years covered by the fourth census. Beijing, Tianjin, and Liaoning, which experienced large population out-migrations in the 60s, had a combined average net in-migration from 1950 to 1982 of only a little over 60,000 people a year, which has increased sharply in recent years to an average of 200,000 people a year, or more than triple. 3. Finally, while the four traditionally population net in-migration provinces and regions of Xinjiang, Ningxia, Qinghai, and Shanxi have maintained their trend, their combined average net in-migration has dropped sharply from a little over 180,000 people a year during the previous 32 years to only a little over 20,000 a year, with the drop in their net in-migration rate being even sharper. In short, a marked turnaround has certainly occurred in recent years in the basic flow of China's population from its traditional pattern of migration from interior and coastal to border zones, to one in recent years of migration from our vast interior and northeastern, northern, and southwestern border zones to our southeastern coastal zone. I believe that while there are many reasons for this crucial reversal, the most basic one is the profound change that has occurred in China's overall socio-economic climate since we began to reform and open up.

This census data shows that the inter-provincial migration rates of all provinces and regions have a highly positive correlation to economic development and investment levels and a definite positive correlation to population density, but a negative correlation to industrial and agricultural resources, which certainly provides food for thought. Calculations show the following:

The rank correlation coefficient of the net migration rate to per capita GNP from 1985 to 1989 was 0.6019, and after excluding Heilongjiang, Zhejiang, Jilin, and Ningxia where conditions were exceptional, was 0.8948 for the other 25 provinces and regions. The rank correlation coefficient of the net migration rate to 1989 per capita fixed assets and foreign investment was 0.7353, and after excluding Heilongjiang and Zhejiang, was 0.8698 for the other 27 provinces and regions. Both of these two positive correlations were very clear.

The rank correlation coefficient of the net migration rate to per capita food output from 1985 to 1989 was -0.3530, which shows that the less food output, the more population net in-migration. (Footnote 2) (In addition to food, this also includes conversion rates to food of 1.0 for cooking oil and aquatic products, 0.5 for pork, 1.5 for beef, mutton, and rabbit, and 1.3 for sugar.) The rank correlation coefficient of the net migration rate to the

potential economic value as industrial reserves of verified mineral resources in 1985 was -0.4230, showing that the population migration direction was from resource-rich to resource-poor areas. The correlation of net migration rate to population density was even more conspicuous. The traditional pattern was that the higher the population density, the greater the net out-migration rate, and the lower the population density, the greater the in-migration rate, with a close negative correlation between them, which resulted in an equalization of population distribution. But based on a 1 percent sampling in 1987, there was actually a positive correlation between the inter-provincial net migration rate and population density from 1982 to 1987, for a rank correlation coefficient of 0.6664, and excluding Ningxia, as high as 0.7644, showing a complete reversal of the traditional pattern. In this census, while Xinjiang and Qinghai's net out-migration of three years before had turned into a small net in-migration, lowering their rank correlation coefficient to 0.3363, it still left a profound impression because it maintained a positive correlation.

Several provinces and regions with lower economic development levels experienced a net inflow of migrants, while a few economically developed ones were net out-migration provinces. This was caused mainly by the following two factors: 1. Most of these provinces and regions have migrant traditions, which often lead to chain reaction or momentum-type migration. For instance, Zhejiang is a small province with a large and talented population, where many people feel deeply that there is no scope for the display of outstanding talent, so rely on their wits to travel throughout China, which has formed a migrant tradition with local characteristics. 2. While these provinces and regions may be either more or less developed economically than all of China, they are likely to be just the opposite in relation to their neighboring provinces. As migration generally occurs mostly over short distances, the upward-mobility pressures created by these gaps between neighboring provinces and regions often have a greater impact on population migration. For instance, while Zhejiang Province is in the front ranks of the nation in per capita income, it is far behind neighboring Shanghai and Jiangsu (southern), so has much out-migration to and little in-migration from these two places, which is a major reason for its provincial population net out-migration. As the 14 population net in-migration provinces in this census ranked first, second, third, fourth, fifth, sixth, seventh, eighth, ninth, 10th, 13th, 16th, 18th, and 20th, respectively, throughout China in average peasant net income in 1989 (with 25th place in-migration Zhejiang ranking fourth in net income), disregarding the first 10, the last four of Xinjiang, Ningxia, Shanxi, and Qinghai were affected by this upward-mobility pressure from neighboring provinces, being almost completely surrounded by lower-income provinces and regions.

This migration pattern change had a considerable impact on the population growth rates and relative population sizes of all provinces and regions, with population

growth rates falling sharply in traditionally in-migration regions after they became out-migration ones. Heilongjiang and Inner Mongolia experienced a clear drop in their percentages of the national population for the first time in their modern population histories. Population growth rates rose in traditionally out-migration regions after they became in-migration ones, with most of their percentages of the national population rising again, of which places, such as Shanghai, Jiangsu, and Shandong, are obvious examples.

Due to population net out-migration, China's border regions became low population growth rate regions on a large scale. For instance, the Suihua region in Heilongjiang Province experienced an overall population growth of only 9.5 percent in the eight years preceding this census, but a natural population growth of 13.6 percent in the one year preceding this census, with net out-migration actually accounting for over 90 percent of its natural growth. Dozens of cities and counties, such as Shihezi City in Xinjiang and Wangkui County in Heilongjiang, experienced absolute population decreases in these eight years, which was rare indeed.

Inter-provincial migration had a large impact on the population gaps among the three categories of city, town, and county (based on the administrative organizational system in which counties are not included in towns). Cities and towns experienced population net in-migrations of 10.5 percent and 3.1 percent, respectively, while counties experienced a population net out-migration of 8.2 percent. Of our 29 provinces and regions, 27 experienced net in-migrations of city populations, and 22 experienced net in-migrations of town populations, while 23 experienced net out-migrations of county populations. Only the three municipalities and one province of Beijing, Shanghai, Tianjin, and Hainan experienced net in-migrations of city, town, and county populations, which fully shows the allure of large cities and special economic zones. Migration across municipal and county lines in the five years preceding this census brought a net increase to our urban population of 15 million. But while inter-provincial migration accounted for only 28.9 percent of this, it accounted for 32 percent of our overall population migration, which shows that it contributed slightly less to urbanization than intra-provincial migration. This was mainly because our population inflow to cities and towns came 73.3 percent from inter-provincial migration, but 79.5 percent from intra-provincial migration.

As to migration distance, inter-provincial migration was mostly short-distance, with 24 of our 29 provinces and regions having neighboring provinces as their major out-migration destinations, and 22 having neighboring provinces as major in-migration origins. Sichuan was rather exceptional, in that its major out-migration destinations were not only neighboring provinces, but also distant ones, such as Xinjiang, Hebei, Fujian, and Henan, which shows that even such a vast peripheral area cannot accommodate the mighty "Sichuan armies."

Based on direction of flow or center of attraction, we can draw the following inter-provincial migration rings:

1. The Guangdong ring, including the six provinces of Guangxi, Hainan, Hunan, Fujian, Jiangxi, and Hubei, which have Guangdong as their major out-migration destination. Within this ring, 4.9 million people migrated in these five years, for a net in-migration of 370,000, and an internal exchange rate of 56 percent.
2. The Shanghai ring, including the three provinces of Jiangsu, Zhejiang, and Anhui, which ranked first and second as each others' out-migration destinations. This ring had an overall migration of 4.07 million people, a net in-migration of 260,000, and an internal exchange rate of 43.2 percent.
3. The Northeast-Shandong ring, including four provinces that hold the first three ranks as each others' out-migration destinations and in-migration origins. This ring had an overall migration of 3.45 million people, a net out-migration of 20,000, and an internal exchange rate of 49.7 percent.
4. The Beijing-Tianjin ring, including Hebei Province. This ring had an overall migration of 2.33 million people, a net in-migration of 560,000, and an internal exchange rate of only 34.7 percent due to Beijing's vast in-migration origins.
5. The Southwest ring, including the three provinces of Sichuan, Guizhou, and Yunnan. This ring had an overall migration of 2.75 million people and a net out-migration of 990,000, making it the major source of inter-provincial migrants in China. While this out-migration gave it an internal exchange rate of only 28.8 percent, the three provinces were still each other's major in-migration origins and out-migration destinations.

The other provinces and regions that are outside of these five major migration rings are all located in central and northwestern China, and have more scattered out- and in-migration directions. For instance, as Inner Mongolia stretches a very long way from east to west, it belongs partially to both the Northeast and Beijing-Tianjin rings. As Henan and Shaanxi are located right in the middle of China, their inter-provincial migration radiates in all four directions. The internal exchange rates in our other northwestern provinces and regions are very low, with Xinjiang having Jiangsu and Sichuan as its major out-migration destinations, and Sichuan and Henan as its major in-migration origins, covering distances of thousands of kilometers.

### III

The natural and socio-economic composition of inter-provincial migrants broke down as follows:

1. *Breakdown by sex:* The average sex ratio of inter-provincial migrants throughout China for the five years covered by this census was 139.12, being higher than the intra-provincial migrant ratio of 119.27, and higher still than the nonmigrant ratio of 105.44, which shows that

the migration rate, particularly as to long-distance migration, was higher for males than females, reflecting a universal law of demographics. As the city and town populations both experienced net in-migrations due to inter-provincial migration, both of which included more males than females, and the county population net out-migration also involved more males than females, this raised the sex ratio 0.3 percentage points for the city population and 0.02 points for the town population, while lowering it 0.2 points for the county population. In our 29 provinces and regions, there were large differences in the inter-provincial migrant sexual composition, which can be broken down into the following four categories:

A. Net in-migrations for the population as a whole, males, and females: The places where this raised the sex ratio were Beijing, Tianjin, Shanxi, Liaoning, Shanghai, and Xinjiang, which had the common features of more key construction and a higher percentage of heavy industry. The places where it lowered the sex ratio were Jiangsu, Fujian, Guangdong, and Ningxia, all of which have higher living standards.

B. Net out-migrations for the population as a whole, males, and females, including Inner Mongolia, Jilin, Heilongjiang, Jiangxi, and Guangxi where it raised the sex ratio, and Zhejiang, Anhui, Henan, Hunan, Sichuan, and Gansu where it lowered the sex ratio.

C. Net in-migration for males and net out-migration for females, which brought net in-migrations for the population as a whole to Hubei, Hainan, and Qinghai, and net out-migrations for the population as a whole to Guizhou, Yunnan, and Shaanxi.

D. Net out-migration for males and net in-migration for females, which brought net out-migration for the population as a whole to Hebei, and net in-migration for the population as a whole to Shandong.

In short, inter-provincial migration raised the sex ratio in 17 provinces and regions, with the largest increases being 3.14 percentage points for Beijing and 1.86 points for Shanghai, and lowered it in the other 12, with the largest decreases being 0.97 points for Hebei and 0.81 points for Zhejiang. It should be pointed out that most of the places in which the sex ratio went up were China's already high-sex-ratio regions, typified by Guangxi, Inner Mongolia, Hainan, Qinghai, and Shaanxi with the five highest sex ratios in China, which inter-provincial migration pushed even higher. The same thing occurred in Shanxi, Guizhou, and Jiangxi. On the other hand, most of the places in which the sex ratio went down were already low-sex-ratio regions, such as Hebei, Shandong, and Jiangsu with the lowest sex ratios throughout China, which inter-provincial migration tended to push down even further. Thus, it can be said that inter-provincial migration had the overall impact of increasing rather than decreasing the regional differences in the sexual composition of China's population.



The basic direction of China's current inter-provincial migration is from west and north to the southeast coast, with an even stronger trend of female migration from west, north, and south to the east coast. Of China's 12 provinces and regions with female net in-migration, nine are located on the coast and account for 98 percent of female inter-provincial net migration, with the other three accounting for an insignificant 2 percent. On the other hand, the male migration concentration is not as high. While nine of China's 16 provinces and regions with male net in-migrations are also located on the coast, they account for only 80 percent of net migration. This

shows that China's female migration is in only one direction, i.e. toward the east, while our male migration is mostly toward the east but with a small reverse flow, which has brought about an interflow in many provinces and regions of females to the east and males to the west. The major sources of China's female population outflow are southwestern provinces and regions, such as Sichuan, Guizhou, Yunnan, Guangxi, and Hunan, which provide two-thirds of the net flow, with the northeastern ones of Heilongjiang, Jilin, and Inner Mongolia supplying about one-fifth of the net flow.

## 2. Age breakdown:

**Table 1: Inter-Provincial Migration Rates (%) for All Population Age Groups**

| Age Group | Inter-Provincial Population Migration Rate | Age Group | Inter-Provincial Population Migration Rate | Age Group | Inter-Provincial Population Migration Rate |
|-----------|--|-----------|--|-----------|--|
| 5-9       | 5.1  | 30-34     | 10.6                                       | 55-59     | 4.2  |
| 10-14     | 5.5  | 35-39     | 9.0  | 60-64     | 3.9  |
| 15-19     | 14.4                                       | 40-44     | 7.8  | 65-69     | 3.6  |
| 20-24     | 29.4                                       | 45-49     | 6.4  | 70+       | 4.1  |
| 25-29     | 19.3                                       | 50-54     | 5.5  | Overall   | 11.6                                       |

In all population migrations, young people account for the highest figures, having migration rates higher than those of children, and even higher still than those of the elderly. The data from this census reflects this rule as well. The average inter-provincial migration rate throughout China was highest for the 20-24 age group at 29.4 percent, after which it decreased progressively toward the younger and the older, being lowest for the 65-69 age group at 3.6 percent, but slightly higher for the 70+ group.

As female migration was due mostly to marriage, female inter-provincial migrants were clearly weighted toward the marriageable age group, with females in the 20-24 age group accounting for 36.5 percent of all migration. On the other hand, males in this 20-24 age group accounted for only 28 percent of all migration. In the 15-19 age group, females also accounted for more migration than males.

There were considerable differences in the age makeup of the inter-provincial in-migration population among various provinces and regions, with the 15-24 age group making up 64.8 percent of all migration to Guangxi, 55.7 percent to Guangdong, 42.3 percent to Jilin, 39.3 percent to Hainan, and an even lower 32.9 percent to Shandong. These differences seem to be related to reasons for migrating, particularly marriage, study or training, assigned employment, and going into business;

**3. Marital status:** This census did not register the marital status of the migrant population at the time of migration, but rather at census time, which was bound to lower the percentage of single people. Even so, single people accounted for 41.6 percent of inter-provincial migrants and 45.7 percent of intra-provincial migration, both of which figures were higher than the 39.7 percent of

nonmigrants who were single, which shows that the migration rate was higher for single people than for married ones. As to the correlation between the two major categories of inter- and intra-provincial migration and reasons for migrating, the two major reasons of assigned employment and study or training accounted for 12.5 percent of inter-provincial migration, but 21.8 percent of intra-provincial migration, with most of the migration due to these two reasons being generally by single youths. Single people accounted for almost 50 percent of inter-provincial migration to cities and towns, but only 26.7 percent to counties, with males making up 50.6 percent but females only 28.5 percent. These figures were obviously also closely related to reasons for migrating. For instance, assigned employment and study or training accounted for a much larger percentage of migration to cities and towns than to counties, while marriage accounted for a much larger percentage of that to counties than to cities and towns. The correlation to difference in sex was also very similar to this. There were also great differences in the percentages of single people involved in inter-provincial migration to various provinces and regions, being 20.7 percent to Hebei but as high as 52.5 percent to Shanghai, which was also due to differences in reasons for migrating.

**4. Education:** Migrants generally had higher educational levels than nonmigrants. In inter-provincial migration, literacy was higher for migrants to cities and towns than to counties, for males than for females, and for migrants from developed coastal areas than for those from undeveloped border regions, which shows an absolutely positive correlation between migration rate and education. People (not including those under six years of age) who were illiterate, semiliterate, or had only a grade school education made up 63 percent of the whole Chinese population, but only 35.6 percent of inter-provincial

migrants. In inter-provincial migration, for every one illiterate or semiliterate, there were 1.5 grade school graduates, 3.2 junior high school graduates, 4.0 high school and technical high school graduates, 8.3 college or university students, and as high as 36 college graduates, which can be said to be a great disparity. The average number of years in school was 9.5-9.6 for migrants to cities and towns but only 6.5 for those to counties, and 9.2 for males but only 6.2 for females, for three year differences in both cases. In comparison to intra-provincial migration, inter-provincial migrants were slightly less educated, which was obviously related largely to the reasons for migrating of study or training and assigned employment.

There was also much difference in the education of inter-provincial migrants from various provinces and regions. The higher the average educational level of the province or region of origin, the higher that of the in-migrants, and vice versa, showing a touch of a "matai effect." The seven provinces and municipalities of Beijing, Shanghai, Tianjin, Guangdong, Hubei, Shaanxi, and Sichuan accounted for only 44.1 percent of inter-provincial migration, but 82.3 percent of inter-provincial migrants with college degrees. While the three general reasons for this were that they were more geared to the needs of key universities throughout China, had more key enterprises and scientific research institutes, and contained more institutions that were in the superstructure or involved foreign affairs, it seems to be a fact that the irrational factor of a reverse movement of talented personnel was also involved. The average number of years of education for migrants was highest in Beijing at 11.4, second in places, such as Tianjin, Shaanxi, and Shanghai, and lowest in Qinghai and Guizhou at only about 6.6. Provinces, such as Hebei, Shandong, and Jiangsu, had more in-migration due to marriage and more female migrants, which pulled down their average educational level. It is worth noting that provinces and regions with migrants of similar average years of education may be weighted differently. For instance, even though this figure was 9.3 years for both Guangxi and Hubei, the in-migrants to Guangxi were mostly high school level, while those to Hubei were mostly college level.

**5. Employment and unemployment factors:** The inter-provincial migration rate for China's working population was 12.6 percent. Among the various occupations, it was highest for office workers at 39 percent, lowest for farm workers at only 4 percent, and notably higher for all occupations than their previous averages. There was a strong trend of migration to developed coastal zones in the two categories of specialized technicians and state cadres, with the in-migration per 1,000 permanent residents in these two categories averaging 7.9-8.7 migrants for Shanghai, Tianjin, and Beijing, 1.0-2.0 for Guangdong, Zhejiang, and Jiangsu, and notable lower for all other provinces, with the lowest being less than 0.2 for Guizhou. Migration of production workers correlated very closely to capital construction investment, with the

in-migration rate being highest for provinces and municipalities, such as Shanghai, Tianjin, Beijing, Xinjiang, Guangdong, and Hainan, where per capita investment was notably the highest in China, and lowest for provinces, such as Hunan, Guangxi, Guizhou, Anhui, and Sichuan, where investment was lowest. As opposed to that for production workers, inter-provincial in-migration of farm workers was concentrated mostly in provinces and regions where the reason for migrating was mostly marriage, such as Hebei, Jiangsu, Shandong, and Anhui, with Hebei, where marriage being the reason for migrating was the highest in China, accounting for more than half of this in-migration. On the other hand, farm workers accounted for only 1.9 percent of migrants, or the lowest rate, to Shanghai, where marriage was the least reason for migrating.

The inter-provincial migration rate for China's unemployed was 15.1 percent, or higher than that for workers. Almost half of these were students in school, whose migration rate was 30.2 percent, which was the basic reason why the migration rate was higher for the unemployed than for workers.

#### IV

This census distinguished the nine reasons for moving of job transfer, assigned employment, going into business, study or training, to live with relatives or friends, retirement or quitting one's job, moving as dependents, marriage, and other, of which the first four can be summed up as economic factors, and the next four as social factors.

In comparing inter- and intra-provincial migration, while social factors accounted for almost equal percentages (37 percent and 35.6 percent, respectively), there was a large difference between assigned employment and study or training, with assigned employment accounting for only 12.5 percent and study or training accounting for 21.8 percent, which was obviously related to the largely independent systems in and little transprovincial exchange among all provinces. There was also considerable difference in the percentages of migration due to going into business, being 29.4 percent for inter-provincial migration, which was obviously higher than the 22 percent for intra-provincial migration, reflecting the gradually widening economic gap between all provinces and regions in recent years. As to inter-provincial in-migration in the three population categories of city, town, and county, reasons for migrating were mostly in the following two categories: 1. Marriage, which accounted for one-third of the in-migration to counties, but only about 4 percent of that to cities and towns. 2. Job transfer, assigned employment, and study or training, which combined accounted for 40 percent of the migration to cities and towns, but less than 10 percent of that to counties, showing that under China's current system, certainly very few of our vast numbers of peasants were affected by these three reasons for migrating.

The reasons for inter-provincial migration among all provinces and regions had clear regional features. As there was generally a reverse ratio between the percentage of social factors in overall out-migration and economic and educational development level, there was a very clear trend of gradually increased migration as we moved from the southeast coast to the interior and border regions. This percentage of social factors in overall out-migration was lowest in Beijing, Zhejiang, and Fujian at 15-20 percent, and slightly higher in Shanghai, Tianjin, Jiangsu, and Guangdong at 20-25 percent, the two groups can be called the No 1 coastal ring. Moving inland, we enter the No 2 interior ring of provinces, such as Anhui, Jiangxi, Hunan, Hubei, Henan, Hebei, Shanxi, Guangxi, and Sichuan, where this percentage of social factors in overall out-migration was 25-40 percent. All of the other provinces and regions belong to the No 3 border ring, where the percentage of social factors in overall out-migration was 40-50 percent for the greater northwest, 50-60 percent for the northeast (excluding Liaoning) and Inner Mongolia, and more than 60 percent for Yunnan and Guizhou. The following is a further analysis of the differences among provinces and regions as to major reasons for migrating:

1. *Going into business:* This was the major factor in inter-provincial migration, accounting for about 30 percent. The determinants of migration direction were one, investment, with all of the provinces and regions ranking in the top 15 in per capita investment experiencing net in-migrations, and second, population density, with 10 of the 12 lowest population density provinces and regions experiencing net in-migrations. As investment and population density were very clearly the most basic determining factors in the labor supply and demand percentages in the fields of industry and commerce, China's low-investment and densely-populated vast central and eastern regions experienced large population net-out-migrations due to business reasons, with out-migration rates being highest in provinces, such as Zhejiang, Sichuan, Guangxi, Anhui, and Hebei. The migration direction was mostly toward high-investment Beijing, Shanghai, Guangdong, Hainan, and Tianjin, and secondarily in a more decentralized pattern toward all border provinces and regions, all of which basically have moderate investments and medium and low population densities. It is worth noting that differences in labor quality can also spur population migration, which is the major reason why many capable and skilled craftsmen migrated from developed eastern zones to western border regions.

2. *Job transfer:* This was the second ranking factor in inter-provincial migration. China's 10 net in-migration provinces and regions in this category (in declining order of net in-migration exceeding net out-migration) were Shanghai, Guangdong, Henan, Sichuan, Shandong, Beijing, Jiangsu, Tianjin, Zhejiang, and Hubei, with the first nine being China's major population out-migration regions in the 60s and or 70s. All of the other 20 provinces and regions, including all border provinces

and regions, experienced net out-migrations, with job transfer being the major out-migration factor in provinces and regions, such as Xizang, Xinjiang, Qinghai, Gansu, Shaanxi, Hainan, and Shanxi, all of which used to be population net in-migration zones. These figures show that a considerable amount of the inter-provincial migration in China in recent years due to job transfer was of a return nature, being a fairly typical case of reverse migration from traditionally in-migration zones back toward traditionally out-migration ones.

3. *Marriage:* This was the third ranking factor in inter-provincial migration, being a reflection of the widespread transprovincial intermarriage trend of the 80s. Of the 15 provinces and regions throughout China in this category that experienced net in-migrations, all except Xinjiang and Ningxia are located in eastern China, including almost all of the coastal zones. This is why this so-called transprovincial intermarriage is far from being equal, being very clearly one-way. For instance, Beijing has 11.7 times more in- than out-migration, while Guangxi has 11.3 times more out- than in-migration. While expanding the marriage migration ring would have positive effects in many areas, more attention should also be paid to further strengthening the legal system to ensure the legal rights and interests of both males and females.

4. *Moving as dependents:* This is a passive or derived form of population migration, which depends mainly on job transfers and has a certain correlation to going into business, but is basically unrelated to the other reasons for migrating. Thus, most of the provinces and regions in this category experienced net out- or in-migrations that were consistent with job transfers, and the remaining few ones that were consistent with going into business, which fully shows the correlation between them. The only exception was Hebei, where the two factors of job transfer and going into business brought a net out-migration, while moving as dependents brought a net in-migration, which seemed to be because out-migrants took fewer dependents and in-migrants brought more.

5. *Study or training and assigned employment:* Migration due to study or training depends mainly on cultural and educational development levels, with net in-migration provinces and regions in this category having the two centers geared to national needs of Beijing and Tianjin in the North and Shanghai and Jiangsu in the South, with other net in-migration provinces being Liaoning, Jilin, Shaanxi, and Sichuan, which are generally geared to their own localities and have relatively developed higher education. All of China's border and minority nationality provinces and regions experienced net out-migrations due to study and training, with such out-migrations being greatest from Ningxia, Xinjiang, and Hainan. It is worth noting that certain provinces that have achieved rapid economic development in recent years, such as Guangdong, Shandong, and Fujian, also experienced net out-migrations due to study and training, and in some

cases large ones, which shows that they are less developed educationally than economically. There was generally a reverse correlation between migration due to study and training and that due to assigned employment, with net out-migrations due to one and net in-migrations due to the other, and this being the case for most provinces and regions throughout China. But both of these factors brought net out-migrations from Hubei, Hebei, Hunan, and Heilongjiang, showing their strong talent outflow, while bringing a net in-migration to Beijing.

**6. Retirement or quitting one's job:** This is another case of reverse migration in which former migrants returned. There were 10 net in-migration provinces and regions in this category throughout China, all of which were population out-migration provinces in the 50s and 60s, the most important of which were Shanghai, Jiangsu, Zhejiang, Shandong, Henan, and Sichuan, which combined accounted for 93 percent of net migration in this category. All of China's other provinces and regions, including all border ones, experienced net out-migrations due to this factor, with ones, such as Beijing, Shaanxi, Shanxi, Hubei, and Jiangxi, which admitted more migrants after liberation, having now all become net out-migration zones due to retirement or quitting one's job.

In summary, all of China's provinces and regions were weighted differently as to inter-provincial migration factors, showing clear differences among interior, border and coastal zones. Shanghai experienced net in-migration due to all factors, while Beijing, Tianjin, and Guangdong experienced net out-migrations due to only one factor. On the other hand, Gansu experienced net out-migration due to all factors, with the case being very similar in ones, such as Heilongjiang, Guangxi, and Jiangxi. All of this shows that China's inter-provincial migration involved clear regional choices.

## TRANSPORTATION

### CAAC Approves Three New Local Airlines in East

*HK0410013792 Beijing ZHONGGUO XINWEN SHE in English 0843 GMT 3 Oct 92*

[Text] Beijing, October 3 (CNS)—The Civil Aviation Administration of China (CAAC) recently gave approval for Shandong, Fujian and Nanjing to establish local airlines. In addition to the existing airlines of Shanghai, Xiamen and Jiangnan, this will make six local airlines in the eastern part of China.

To date, all six provinces and one city in eastern China have air transport enterprises and all of them have a number of new internationally advanced aircraft including A300-600s, MD-82s and Boeing 757s.

At present, 23 civil, or civil/military, airports are operating in the six provinces and one city in eastern China,

making the region one of the busiest in terms of airport distribution in the whole of China.

During the first half of the year, the number of passengers handled by civil airports in eastern China was more than 2.68 million, an increase of nearly 30 percent over the same period last year.

With the great development of civil air transportation, the construction of necessary airport facilities in eastern China is now in full swing. The newly-built airport in Jinan went into service in July and the construction of new terminal buildings in Nanjing and Nanchang have been completed. Airports in Jiujiang, Anqing and Jingdezhen are now either being expanded or renovated. New airports exclusively for civil use in the capitals of the provinces of Jiangxi, Jiangsu, Zhejiang and Fujian will be built.

### Second North-South Railway Completed in East

*OW0410154492 Beijing XINHUA in English 1439 GMT 4 Oct 92*

[Text] Hefei, October 4 (XINHUA)—The second north-south railway line crossing Henan, Anhui and Zhejiang Provinces in eastern China has been completed after five years of construction.

It starts from Shangqiu City in Henan Province, passes through Hefei City, crosses the Yangtze River and goes through Hangzhou City. It links more than a dozen trunk and branch lines with a total length of 838 km.

The line will greatly improve the transportation capacity of the railway network in east China.

A new railway station in Wuhu City, Anhui Province, can deal with 21 pairs of passenger trains a day instead of seven before.

The new Shangqiu (Henan Province)-Fuyang (Anhui Province) line is expected to shoulder 14 pairs of freight trains a day by the end of the year, compared with only four pairs at present, and this stretch will handle passenger trains soon.

The whole railway will be a shortcut connecting the inland regions with the coastal areas of southeast China, so that materials from northwest and north China—especially coal from Shanxi and Henan Provinces—can have convenient access to east China.

Since October 1987 the central and local governments have invested a total of more than two billion yuan (about 364 million U.S. dollars) to build 419 km of new railway lines, including 151 km of multiple track.



### **Ship Repair Wharf Under Construction in Qinghuangdao**

*OW0110043792 Beijing XINHUA in English  
0219 GMT 1 Oct 92*

[Text] Shijiazhuang, October 1 (XINHUA)—Construction of a wharf for repairing ships of up to 100,000 tons has started at the Shanhaiguan shipyard in eastern Qinghuangdao City in Hebei Province, north China.

The total investment in the wharf will reach 30 million yuan and the project is expected to be completed in two years. The facility will be capable of handling 16 ships a year.

Shanhaiguan shipyard is an important base for repairing ships in the northern part of China. The new wharf will help increase China's competitive ability in the international ship repair business.

## **AGRICULTURE**

### **Shantou Builds Biggest Fertilizer Project in History**

*HK0210020492 Guangzhou Guangdong People's Radio Network in Mandarin 0400 GMT 25 Sep 92*

[Text] The State Council and State Planning Commission recently ratified the Shantou Marine Group Company's plan to use foreign funds to build a combined MPB1 [as heard] and chemical fertilizer equipment project [as heard]. The total investment is \$528.5 million, amounting to 3 billion yuan in renminbi.

This is the biggest project in Shantou's history in terms of size and investment. The project will be located in the Hong Kong-Macao section of the Shantou Special Economic Zone.

The city government has set aside four square km of land for the project. It is learned that the provincial government has recently decided to inject 363.3 million yuan, withdrawn from the special chemical fertilizer funds, into the project.

The first phase project will begin construction in the first half of next year and go into operation in late 1995.

### **Report on Progress in Tibetan Farm Mechanization**

*OW2509130392 Beijing XINHUA in English  
1038 GMT 25 Sep 92*

[Text] Lhasa, September 25 (XINHUA)—Herdsmen and farmers in Tibet are saying farewell to the traditional way of animal husbandry and farm production and embarking on the road of mechanization.

In operation now in the whole region are 11,704 tractors of all types, 30,223 farm vehicles, 2,947 large and small farm machines, 4,050 irrigation and drainage machines, 572 farm pumps, 52 harvesting machines, 4,992 threshing machines, 235 seed selectors, 887 machines for processing farm and sideline produce, 730 machines for plant protection, 44 machines for animal farms and 37,903 semi-mechanized farm implements.

The total power for use in agricultural and animal husbandry production has exceeded 485 million watts and the original value of such fixed assets as farm and animal husbandry machines has come to 250 million yuan.

The whole region has set up a service system ranging from farm machine management, to training of farm machine operators, to farm machine repairs and supply.

Farm machines were introduced to Tibet in 1954, when the first group of tractors was driven onto this plateau. Three years later, water wheels, animal-drawn ploughing machines and threshing equipment were introduced. In 1958, the Tibet Autonomous Region began to produce its own 20-hp four-wheel tractors.

The introduction of farm machines helped change crop selection and farming methods. Many places which used to do slash and burn and employ other primitive methods of farming began to use new farm machines.

### Conservatives View Li Teng-hui's Mainland Policy

92CM0416A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 286, 5 Sep 92 pp 46-47

[Article by Lin Ying-chiu: "Report on What Actually Happened at a Nongovernmental Forum on Mainland Work Sponsored by 'Review of State Affairs' Publishing House"]

[Excerpts] With the "anti-Li Teng-hui" banner hoisted high within the Kuomintang, the "Review of State Affairs" Publishing House led by Professor Feng Hu-hsiang of the National Central University sponsored on 23 August a nongovernmental forum with regard to mainland work on the third floor of the Chinese Television Service Building, sharply pointing out the inadequacies of the existing mainland policy charted by Li Teng-hui.

With Ting I-ni, Ting Chieh-min, Chen I-hsin and others as panelists at the forum, Secretary General Chiang Wei-kuo of the National Security Council; Li Lu, a leader of the mainland democracy movement; visiting professor Kuan Wei-yen of the National Tsing Hua University; and Yuan Ming, a specialist on China issues who resides in the United States, made speeches at the forum at the invitation of the "Review of State Affairs" Publishing House to express their views on the current mainland policy. At the end of the forum, guests were allowed to speak and debate. What happened at the forum was pungent, fierce and tough in the same way as the "Review of State Affairs" criticized Li Teng-hui. There were not only people who condemned Li Teng-hui for his inclination toward an "independent Taiwan," but also those who criticized Huang Kun-huei for the setbacks in promoting nongovernmental exchanges since he took office. There were others who showed discontent about the fact that those who advocated the "three links" were among the best of the successful candidates in the Kuomintang primary election. A strong feeling on the issue between the mainlanders and the Taiwanese dominantly prevailed in the forum in which participants showed lack of confidence in the mainland policy worked out by head Taiwanese politicians. Thus, there emerged a suggestion that Chiang Wei-kuo and Hao Po-tsun visit the mainland so as to alleviate the present predicament on the mainland policy.

Feng Hu-xiang presided over the forum. As a distinguished guest at the forum, Chiang Wei-kuo delivered a speech which lasted over half an hour. However, his speech lacked any central issue. He mentioned the 4 June Democracy Movement and the potential crisis on the current exchanges across the strait, while emphatically pointing out the inevitable collapse of communism on the mainland. He called on the people to work hard and aim high instead of feeling discouraged by the severance of diplomatic relations between Taiwan and Korea. Also, he criticized the lack of consistency in formulating the current mainland policy. After his speech, the

scholars and experts at the forum only remembered that he talked for a long time, but they failed to remember the focal point of his speech.

Then, Li Lu made a speech which lasted about half an hour, vilifying the communist party for its atrocity during the 4 June Tienanmen Square incident, and pointing out the reasons why the Chinese Communist regime would definitely collapse. He stressed that a great disorder would take place on mainland China, if it failed to open its door to democracy. He also pointed out that the term "go native" frequently used in Taiwan should be "go Chinese" instead of "go Taiwanese."

Kuan Wei-yen, a mainland Chinese scientist and visiting professor now teaching at the National Tsing Hua University, expressed his feelings during his sojourn in Taiwan, saying that the official mainland policy of the government is limited by the current situation across the strait and that more can be done on a nongovernmental basis. He suggested that Chiang Wei-kuo lead a delegation to visit the mainland to promote nongovernmental exchanges. Kuan's speech in this connection was warmly applauded. He particularly pointed out that the crape on Chiang Wei-kuo's coat lapel was aimed at mourning the 4 June Tienanmen incident.

At that time, Chiang Wei-kuo stood up on his own, saying that he wore a crape for a year when his father died, that he also wore a crape for a year when his brother Chiang Ching-kuo died, and that he had worn a crape since the 4 June Tienanmen incident. His words aroused another round of warm applause from the audience. Soon after that Chiang Wei-kuo left the room before the forum ended.

In his speech, Yuan Ming talked about his two trips to Taiwan. He said that it was hard for the Taiwan authorities to change their mainland policy overnight. However, more efforts should be exerted in promoting nongovernmental exchanges, he added. [passage omitted]

After some scholars expressed their views, some people in the audience began to sharply criticize the official mainland policy. Some supporters pointed out that Li Teng-hui never received any pro-democracy movement leader from the mainland including Fang Li-chih, but he met with Hsu Hsin-liang and invited Peng Ming-min to return to Taiwan to attend the meeting on state affairs. Even then, Peng Ming-min was unwilling to come back to Taiwan. Peng, a person originally regarded as a "prisoner" was treated as a "guest of honor" by Li Teng-hui. All this clearly reflected Li's inclination toward an "independent Taiwan," they said.

Some people worried that the Kuomintang had now been split into "China's Kuomintang" and "Taiwan's Kuomintang"; that with the evolution of the times, the concept of the younger Kuomintang members would also change; and that if the Kuomintang becomes "Taiwan's Kuomintang" in the future, Taiwan would be the same as independent.

Some people said that Li Teng-hui formulated such a mainland policy, because he did not trust mainlanders. They pointed out: Chen Chang-wen is Hao Po-tsun's man. Li Teng-hui fears that Chen Chang-wen may sell Taiwan out. Therefore, he finally puts a Taiwanese Huang Kun-huei in charge of the mainland policy, while forcing Chen Chang-wen to resign. Right now, even Chen Jung-chieh who is also a Taiwanese cannot stand Huang Kun-huei. Nongovernmental exchanges have suffered several setbacks since Huang Kun-huei was put in charge of the mainland policy.

Some people criticized Li Teng-hui's "elastic diplomacy" and "pragmatic diplomacy" as a de-facto "fool's diplomacy." So much money was spent to woo a poor, black African country. There was no real benefit at all, and was simply foolish.

Some people worried about the fact that Li Ching-hua who advocated "direct election" was among the best Kuomintang candidates in the preliminary election for the Second Legislature and that Lin Yu-xiang, a member of the "Thought-Gathering Club," advocated "three links with conditions." They believed that the current "enthusiasm for the mainland" was overheated.

More people made stinging remarks, trying to challenge Li Teng-hui's mainland policy. If Hao Po-tsun is daring and resolute, he should lead a delegation to visit Peking, they said. In the future, his name would definitely be remembered in history, they added.

Dissatisfied with the existing mainland policy, these old anti-Li Teng-hui mainlanders assembled to vent their long-suppressed restless feelings in a nearly hysterical manner. It was precisely this three hour long forum that provided them with such an opportunity.

#### **Poll on Worsening Political Ecology**

92CM0414A Taipei TIEN HSIA [COMMONWEALTH]  
in Chinese No 136, 1 Sep 92 pp 62-67

[Article by Liang Zhongwei (2733 0022 0251), and Wu Wanyu (0702 3834 3842): "Who Is Responsible for the Worsening Political Ecology?"]

[Excerpt] [passage omitted] The disastrous effects of environmental pollution are very clear. The deterioration of political ecology, however, echoes the views of others, and its definition is hard to draw. Although many people feel that money politics has become the biggest hidden worry of Taiwan's future, to what extent has it deteriorated? Who should be held responsible for today's situation? Questions similar to these have always hidden in the gray zones of political discussions.

In view of this issue, TIEN HSIA in the last 10 days of August conducted, by way of telephone surveying, a large scale "Poll on Money Politics" among voters over 20 years old. Of the 640 valid questionnaires obtained, as high as 88.4 percent of the people polled believed that a worsening of money politics would lead to political

corruption, social injustice, and instability. Apparently, in the hearts of the absolute majority of the voters, money politics is an unending path on which one should never embark.

Nevertheless, Taiwan is sinking deeper and deeper in the quagmire of money politics. At least three out of five people (66.7 percent) point out with one voice that today's situation of money politics, compared with 10 years ago, is getting more and more serious.

As for most voters, the evil consequences of money in exchange for votes are obvious; 76.9 percent of people polled believed that as soon as those who get votes with money are elected, they certainly use their privileges or illegal means to make more profits with doubled efforts. The higher educational level the pollees have, the more firmly they believe that the bribers for votes will not engage in honest government; and 89 percent of the pollees with two or three years of college education or higher believe that the bribers for votes will double their efforts to recover their losses.

Who should be responsible for the deterioration of the political ecology?

The poll is quite evident. More than half of the pollees (55.8 percent) believe that the ruling party, the Kuomintang, should bear responsibility. Moreover, among the pollees with Kuomintang membership, there was an even higher proportion (65.5 percent) of those who held the Kuomintang accountable. This fully shows that ordinary Kuomintang members are more likely to have the courage to face problems than the actually senior responsible party officials; and 19.5 percent of the pollees believed that society and the broad masses of the people should be responsible.

The absolute majority of pollees disagree on the nomination of golden-bull level figures (those who spend over 200 million or 300 million yuan in one election) to run for legislative positions (70.7 percent). They even disagree on the nomination of those engaged in sinister gangs and illegal businesses (88.3 percent). However, if the two big parties still nominate people of these types to run, who should be responsible for this kind of nomination?

First, in view of the Kuomintang, if the Kuomintang nominates golden-bull level figures to run for the legislature, 58.1 percent of the pollees believe that Secretary General Sung Chu-yu should bear the greatest responsibility, and 41.4 percent believe that President Li Teng-hui should be responsible. Those who held the Central Nominating Group and party officials at various levels responsible respectively made up 41.1 percent. According to the investigative information, of the youngest voters (from 20 to 30 years of age) as high as 70 percent believe that Sung Chu-yu should bear the due responsibility.

But if the Kuomintang nominates those engaged in sinister gangs and illegal businesses, 60.3 percent of the

pollees believe that the Central Nominating Group, including some important officials of the Kuomintang, namely, Vice President Li Yuan-cu, Premier Hao Putsun of the Executive Yuan, Interior Minister Wu Po-Hsiung, and Provincial Chairman Lian Chan should bear the primary responsibilities. Those who held party chairman Li Teng-hui responsible made up 41.9 percent.

As for the Democratic Progressive Party, if it nominates golden-bull level figures or those engaged in sinister gangs, more than 60 percent of the pollees unanimously believe that party chairman Xu Hsin-liang should bear the responsibility.

In addition, according to overlapping analyses, people in nonurban areas (not belonging to Taipei, Taichung, and Kaohsiung), in the process of nomination, are more likely to emphasize responsibilities of the party officials than those in urban areas. But the pollees with higher income pay attention to responsibilities of the party leaders (including the party chairmen and secretaries general).

Although the general mood of spending money for votes by candidates is on the rise with each passing day, bribing voters will not necessarily affect the outcome of the voting. According to TIEN HSIA's poll, when encountering vote buyers, 42.7 percent of the pollees neither accept the money nor vote for the buyers, whereas 49.7 percent will take the money but will not vote for them. Nevertheless, due to the prevalent practice of vote purchasing, there were many cases of accepting money for votes. Nearly half of the voters adopt the wise strategy of "accepting money but not voting for him." As a matter of fact, rising campaign expenditures have indirectly brought about a negative situation in which able and virtuous people find it difficult to emerge.

Under the circumstances that money politics is increasingly worsening, sinister gangs, and privileges are more commonly linked with politics, reactions that the Taiwan public possibly make, will become the variable that will directly affect the election. Among the pollees, as high as 61.3 percent of the voters will choose not to vote so as to show their protest, and 18.2 percent will accept reality.

However, 3.1 percent plan to leave and emigrate to other countries to show their dissatisfaction with the worsening government ecology; and 3.6 percent will protest by taking to the streets, or taking even more violent means. This indicates that continued worsening of the political ecology will plant factors that will destabilize society. But 13.8 percent of the people insist on taking more positive attitudes by voting for the honest and upright.

To sum up, this poll clearly shows that ordinary people are extremely dissatisfied with the worsening political ecology in Taiwan. The ruling party should not shirk responsibility. It should bear the biggest responsibility as for whether politics will embark on a clear and bright

path or continue to deteriorate. Nomination policies of parties will be the keys that affect political trends. Senior leaders, from party chairmen to secretaries, and the Central Nominating Group all should be responsible for selecting the able and virtuous for the people and the country, and nominate candidates who will best meet the needs of the people to enter the election contest. [passage omitted]

### Prominent Dissident Discusses Upcoming Trip

92CM0417A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 287, 12 Sep 92 pp 60-61

[Interview with Peng Ming-min by Chen Kuo-kun (7115 0948 0981) in Flushing, New York, on 2 September: "I Am Going To Face an Unknown World on My Return—An Interview With Professor Peng Ming-min on His November Trip to Taiwan"]

[Excerpts] Professor Peng Ming-min announced last year that he would go back to Taiwan on 1 November this year. [passage omitted]

In an interview with this reporter on the afternoon of 2 September at his friend's home in Flushing, New York, Peng gave his opinions on the current situation and his possible activities in Taiwan. Following are some of the questions and answers in the interview:

[Chen] Your trip to Taiwan is rather impressive, and it will be at the time of the election in Taiwan. Objectively, some people may think that your trip will help boost the popularity of the Democratic Progressive Party [DPP]. But you are a good friend of President Li Teng-hui, and regard him as a good leader willing to do something for Taiwan. If the DPP makes "too good achievements" in the election at the end of this year, will there be more obstacles to Li Teng-hui's administration in the future?

[Peng] The political conviction I have long held is that healthy democratic politics requires a healthy nonruling party. I have all along hoped that a healthy, powerful opposition party would appear in Taiwan. This is also the greatest goal of Taiwan's post-war democratic movement. For this goal many people, including both mainlanders and Taiwanese, have sacrificed their happiness and even their lives. It is also because of this goal that I am quite willing to help boost the nonruling force.

Meanwhile, I have been away from Taiwan for a long time. Also, I am well aware that Taiwan's political situation is very complicated. Not only are there contradictions between the different factions within the Kuomintang and the DPP, some conflicts also exist between the two parties.

Having been overseas for such a long time, I cannot comment on these intricacies. I only want to speak on my ideals on my return so that others may share these ideals. I hope that Taiwan will devote more efforts to democratization and present a more ideal society before the people of the world. My ideals may not be beneficial



to any faction. I cannot consider the question of whether my acts will benefit Li Teng-hui or the DPP. Maybe some people have a misunderstanding in this regard. My real concern is the efforts devoted toward a more democratic society in Taiwan as a whole.

[Chen] Some of your friends and students have said that your comments on the Taiwan independence alliance have evoked some people's misunderstanding and resentment. Plus, some conservative forces on the island are suspicious of the purpose of your trip to Taiwan. I have heard that some people are concerned about your safety when you return to Taiwan.

[Peng] As a matter of fact, during these years in the United States, quite a number of my friends have shown concern about my safety. Recently many people who have been concerned about my safety have mentioned this again. In dealing with this matter, it is right for us to do everything we can think of to prevent its occurrence. After we have done all that we can, the next step is to leave ourselves to "destiny." We should not refrain from doing anything for the sake of precaution.

I also know well that some Kuomintang members hate to see my return. They have taken advantage of the contradictions among some native Taiwanese organizations to stir up the misunderstandings that have already been eradicated. Unfortunately, some native Taiwanese do not look at the overall situation when dealing with questions. They are thus divided and used by others either deliberately or unwittingly.

[Chen] The severance of diplomatic relations between Taiwan and the Republic of Korea has once again shown the difficulty faced by Taiwan in foreign affairs. You have long been concerned about this question. What are your comments on Taiwan's foreign policy?

[Peng] Taiwan upholds the one-China stance, which has to be examined thoroughly. The authorities have said again and again that we are "one China, and Taiwan is a part of China." Then, what can they say internationally. On the one hand, they complain that the Chinese Communists allow no room for Taiwan in the international community. On the other, they say that Taiwan is a part of China. If Taiwan is a part of China, as long as the Chinese Communists have room, Taiwan must automatically have room. By keeping to this one-China stance, Taiwan cannot justify itself.

Over the past 40-plus years, Taiwan proclaimed that it would launch a counterattack on the mainland and that it was the sole legitimate Chinese government. This fictitious myth caused Taiwan to pay a big price. At that time people who expressed skepticism about this myth also paid a big price. Now, it is using a new fictitious myth and still saying "one China." This stance may be even more fatal. The price may be the survival of Taiwan as a whole.

[Chen] There is a great difference in opinion between the ruling and nonruling political forces. The main reason

appears to be that there is a problem about "national identity." Will you do something on your return to help the ruling and nonruling political forces to achieve consensus about "national identity?"

[Peng] Certainly, Taiwan has a very serious crisis with respect to "national identity." This crisis is very harmful to Taiwan.

Of late, I have read reports that Li Teng-hui said on a certain occasion that the people of Taiwan should uphold the view of "a common-life community." Many years ago I presented the view of "a common-fate community." These two views may have similar meanings. But what do they mean? According to my understanding, they mean "the consciousness of the people of a nation." Those living in Taiwan should acknowledge the fact that Taiwan belongs to them, and that the welfare of the people of Taiwan should be given priority consideration under any circumstances. "A common-fate community" is neither a slogan nor something designed for political purposes. It is a product resulting naturally from history, experience, and sentiment. Since we have no experience in sharing weal and woe with the 1.1 billion people on the mainland, it is hard for us to foster a "common fate" feeling with them. When businessmen are traveling to various parts of the world or doing business in mainland China, they have no "common-fate feeling" with the local people.

The mainland sentiments among the people of Taiwan can be summarized as follows: Old people are nostalgic. Middle-aged people use these sentiments as a tool for political struggle. Young people have an illusion about the mainland. These sentiments, though understandable, should not hamper their identification with Taiwan.

I will face an unknown world on my return. I expect that I will suffer a grave culture shock. Many specific activities have to be arranged at that time, depending on the circumstances. There will be several public speeches, and I will speak mainly on some major issues and goals. I will remind people to cherish our native land, and make concerted efforts to build an ideal society of mankind.

#### **Direct Links Between Two Sides of Strait Rejected**

92CE0709A Taipei TSAI HSUN [WEALTH  
MAGAZINE] in Chinese No 9, 1 Sep 92 pp 123-127

[Article by Chou Kuo-wei (0719 0948 0251): "Pros and Cons of Direct Links Between Two Sides of Strait"]

[Text] Should there be direct links between the two sides of the strait? The average person can cite a host of reasons for or against the proposition. Some say direct links are what we all want. Li Ching-hua [2621 1987 5478], son of Li Huan [2621 3562], a former president of the Executive Yuan, and a candidate in the Legislative Yuan elections, for instance, is quite open in his demand for direct links, echoing Communist China's call for "three links." Yet others argue that at a time when

Taiwan sovereignty is undetermined and tension still exists across the strait, direct links are a total disregard for Taiwan security and survival. Thus polarized, the direct links issue has become a much debated topic between Taiwan politicians and business, between the government and members of the public. What good would direct links be for Taiwan? Who is for it? Who is against it?

The decision whether or not to initiate direct links rests entirely in the hands of the governments on both sides of the strait. But can public pressure change government policy? That will depend on whether public opinion is powerful enough to make the government change its policy.

#### **Indirect Links Increase Spending by NT\$10 Billion Each Year**

Industrialists like Chen Cheng-tian [7115 4141 2989] of Sheng Pao and Wang Yung-ching [3769 3057 1987] of Taiwan Plastics; Legislative Yuan members like Lin Cheng-chieh [2651 2973 2638] and Chang Ping-chao [1728 1627 3113]; and other well-known figures like Li Ching-hua, Chang Hsiao-chun [1728 2556 2504] and Chia Yi-jan [6328 3015 3544] are openly demanding that the government allow direct links. Social organizations are putting together a "parade in support of direct links between the two sides of the strait."

Judging from the various public opinion polls, over 50 percent of the public support direct links. The main reason is that the absence of direct links has boosted airfares and other costs and made things inconvenient for the traveling public. Since goods and raw materials cannot be shipped directly between the two sides, which means higher production costs, businessmen too have been complaining no end.

Since 1976 when Taiwan residents were allowed to visit relatives on the mainland, about 3.6 million people have made the trip across the strait, including 900,000 last year. Let us calculate using a simple method, the economic costs of a trip between the two sides, travelling either directly or indirectly. The mainland is vast in size so we pick centrally-located Shanghai for calculation purposes. Say a Taipei resident flies to Hong Kong, changes plane there, and then continues his trip to Shanghai. The whole trip would cost him about \$17,000 (figure supplied by Hua Hsia Travel Agency) in airfare. Had he been able to travel to Shanghai directly from Taipei, he would have to pay less than \$7,000, saving \$10,000. Since 900,000 people from Taiwan visited the mainland in 1991, total savings for the year would have been \$9 billion.

Then there are the savings in time. Say the person traveling to Shanghai from Taipei by way of Taoyuan and Hong Kong leaves home at 0700. His plane takes off from Taoyuan Airport at 1000 and arrives in Hong Kong at 1100. After a layover lasting at least two hours, he changes plane, and assuming the plane leaves on time, arrives in Shanghai at 1530. This indirect flight takes at

least eight hours, wasting a day's time, or two days round trip. A direct flight, on the other hand, can cut the amount of time needed by at least half, a significant saving for people in business and industry. Translating this into dollars and cents, let us say one day is worth \$2,000. Had direct flights been in place last year, therefore, the 900,000 people who traveled to China could have saved \$1.8 billion. Add the \$9 billion in savings due to cheaper tickets, and indirect links come with a total annual price tag of \$10.8 billion.

What the relatively affluent public is complaining about is the many problems caused by changing plane. For instance, the workers at Hong Kong Kaitak Airport have always had a poor attitude toward Taiwan travelers. If a traveler misses his connecting flight because his plane has been delayed, he is stranded in Hong Kong. If he has no Hong Kong visa, he has no choice but to stay at the airport overnight without food or drink, which is quite "inhuman." Moreover, his luggage may easily get lost in transit. The flights also are often over-booked. These are the things people complain about. Thus most mainland-bound travelers demand direct links.

#### **Sovereignty Issue Biggest Stumbling Block**

Now some technical analysis. Wu Fu-long [0702 4395 7893], general manager of Hua Hsia Travel Agency, believes that Taiwan airports currently simply cannot handle any direct flights. Let us put the number of travelers between Taiwan and the mainland at a conservative 1 million each year and further assume that mid-sized planes with a capacity of 100 passengers each will be used. There will be 10,000 outgoing flights each year, 27 flights a day, or 54 flights in all if you include the incoming flights. Since domestic airports are already operating over-capacity, they will have a hard time accommodating the extra flights.

Hung Yi-hsun [3163 0110 6676], counselor to the Ministry of Communications, said that direct flights also involve such things as customs inspection, tariffs, immigration control, quarantine measures, airworthiness verification, the security of airspace control, and harbor installations. None of these things can be accomplished overnight. While the Ministry of Communications does practice long-range planning, the initiation of direct links is more than a political issue but also involves wide-ranging technical issues. Ma Ying-chiu, vice chairman of Planning Commission for the Recovery of Mainland China, has said in public that even if we decide in favor of direct links now, negotiations alone will take at least two years.

The Planning Commission for the Recovery of Mainland China, charged with the formulation of a mainland policy, is the main opposition to direct flights at the moment. Under regulations promulgated by the mainland recently, Ma Ying-chiu said, no airplane flying directly between Taipei and the mainland can carry the ROC emblem or insignia, whether it be on an object inside the plane or on the plane itself. In other words,

even things like references to the ROC as part of the date on an in-flight newspaper are prohibited. Given these regulations, the government naturally would not agree to direct links. On the contrary, it points to them as the basis for rejecting direct links.

The government has explained why it does not allow direct links and launched an intensive TV advertising campaign to counterattack the mainland over the issue of "political entity." Citing three factors, namely Beijing's nonrecognition of the ROC as a political entity, its denial of any international maneuvering room to Taiwan, and its refusal to renounce the use of force against Taiwan, the government maintains that the Chinese Communists are a bully who is using business and the people to pressure the government and therefore is not well-intentioned. For the moment, therefore, the mainland should remain in the kuo-tong-wang-ling [0948 4827 4986 7325] short-range stage and there can be no direct links.

Under these circumstances, Taiwan really cannot give up its sovereignty and its position as a political entity for the convenience offered by direct links. How can it allow direct links when its national emblem would not be allowed on planes and ships and its legal status would not be recognized on the appropriate documents and certificates? Sovereignty is the paramount issue. Opposition to direct links is an unalterable government policy at the present stage.

#### **Direct Links Will Accelerate Flow of Industry, Funds to Mainland**

Actually the simplest solution is either the reunification of China or independence for Taiwan. If China is reunified, direct links would become a domestic transportation issue, one that can be settled by a word from the central government. If Taiwan achieves independence, direct links would be an issue between two nations and can be handled in accordance with established international practices. Right now, however, we are in a murky grey zone where black cannot be distinguished from white. All we have is one side's word against that of another.

On the other hand, the voice of opposition to direct links is slowly being heard. The Planning Commission for the Recovery of Mainland China collected all the public opinion polls on direct links and discovered that while most people approve of direct links in general, they tend to oppose it when they know it is premised on the refusal by Beijing to recognize the existence of the Republic of China.

Hung Yi-hsun of the Ministry of Communications has put the ball back in Beijing's court. He said, "Taiwan is willing to accept direct links. It is Communist China who is unwilling to stop politically suffocating us. It is China that is blocking direct links." According to Hung Yi-hsun, aviation-related facilities, airport facilities, and harbor equipment on the mainland are inadequate and cannot meet the demand of direct links.

What concerns Hung Yi-hsun most are military considerations. China has refused to renounce the use of force against Taiwan. With direct links, China may come to know about Taiwan's aviation control. If China re-fits civil airlines with atomic bombs and other weapons and have them fly over Taipei, there is absolutely nothing Taiwan can do to fight back. This may be alarmist but is not totally implausible.

Direct links will be a blow to the economy, most obviously by accelerating the flow of industry and funds toward the mainland and deepening Taiwan's economic and trade dependency on the mainland. Taiwan will then be unable to negotiate as an equal. With direct links, Taiwan will take on collective political risk so that certain individuals and corporations may benefit.

#### **Tourist Industry Most Opposed To Direct Links**

Within business, direct links would have an immense impact on the shipping industry. Chang Jung Shipping Company, the industry leader, has said that direct links are to be considered only if they are legally allowed. At the present stage it does not support direct links. The reason is that direct shipping will simply be unprofitable for Chang Jung and the shipping industry. Take Japan and Korea, for instance. Direct shipping has long been allowed between these nations and mainland China, yet their shipping industries have not made any money from it and are privately saying they have gotten the worst of it.

Noting the low operating costs of shipping on the mainland and the wide gap between them and those of an international shipping company, General Manager Chang Kuo-hua [1728 0948 5478] of Chang Jung Shipping said that after direct links are established, the mainland shipping industry will use its low-cost advantage to scramble for orders, and Taiwan's shipping industry will certainly be hard hit. Chang Kuo-hua also pointed out that while direct links between the two sides of the strait will help firms cut costs, there are other pertinent issues that must be considered. Moreover, the scope of direct shipping is ill-defined. Does it mean shipping between two fixed points? Or can it be extended to international shipping routes? The impact will differ greatly depending on the answer. In addition, none of Chang Jung's large-scale containerized cargo vessels can enter China's harbors, which tend to be on the small side, while the mainland's small freighters can berth at Taiwan's harbors. Thus it is Taiwan that will end up as the loser.

This is why Chu Yung-chuan [2612 3057 5425], director of shipping, said that only those who are already engaged in direct shipping in violation of the law demand direct links. Realizing the negative consequences of direct links, most in the shipping industry are no longer as eager as they were and on the contrary want the government to consider the matter at length.

Actually it is the tourist industry that is most strongly opposed to direct links. At present getting the necessary

paperwork for a trip to the mainland to visit relatives, sightsee, or do business involves cumbersome time-consuming procedures. Booking a plane ticket is no easy feat either. So most people have a tourist agency handle these matters. Hence the endless stream of customers at travel agencies doing mainland business. After direct links are allowed, you can board a plane and fly directly to various locations on the mainland, as simple as catching a plane in Taipei and jetting to Kaohsiung, Makung, or Quemoy. Why would the public still need to ask a travel agency to book plane tickets? On the other hand, travel agencies on the mainland would be able to extend their reach into Taiwan by directly offering their services to Taiwanese wishing to travel to the mainland. While Taiwan tour operators may compete on the quality of their services, it is foreseeable that they will be put to the test because their mainland counterparts charge lower prices. The tourist industry is the one industry most unwilling to see direct links become a reality.

Besides accelerating the flow of industry and funds toward the mainland, direct links will also hit many local industries hard by enabling mainland products to be

dumped here. In particular, direct links will make it easier to import mainland agricultural products, dealing another blow to Taiwan's already beleaguered agricultural sector. Moreover, there will be more mainland people coming to Taiwan to work at low wages, presenting a challenge to Taiwan's workers, both blue- and white-collar. Thus people impatiently calling for direct links today may not have considered the problems that can arise in the wake of direct links.

Be that as it may, the people in power should realize that direct links are not something in the remote future but are quite imminent. Besides pressing its case politically, therefore, the government must make proper plans for industry and the economy. Otherwise, little Taiwan would inevitably be swallowed up by the vast mainland no matter when direct links come about. When Taiwan the mini-dragon suddenly becomes Taiwan the little worm, things like political entity will not mean anything to anybody. Profit-minded businessmen, in particular, will go where the money is. Anxious to put food on their tables, the people too will look toward the mainland. Then tragic things will happen.



**Commentary Analyzes, Predicts Import Trade**

*HK1009022692 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0934 GMT 27 Aug 92*

[Commentary by Yu Cheng (6735 2052)]

[Text] Hong Kong, 27 August (ZHONGGUO TONGXUN SHE)—The margin of growth of various Hong Kong import goods have greatly increased recently, reflecting the considerably brisk commercial activities and private consumption. If the uncertain factors affecting the economy as a whole continue to fade, it is believed that Hong Kong will even more eagerly demand imports.

According to the latest statistics released by the Hong Kong Government, the goods value of various materials imported in June this year was HK\$84.621 billion [Hong Kong dollars], a sharp increase of 33 percent over the same period last year, indicating a tendency to grow by wider and wider margins. As a result, the average import growth rate for the first six months was raised to 23 percent, the highest since 1988. On the basis of the considerably eager demand for imports, Hong Kong's foreign trade deficit made a noticeable upward turn correspondingly. Various major import goods increased prominently in the first six months. Of these, the accumulative import value of electric machines, instruments, apparatuses, and spares reached HK\$43.1 billion in the first half of this year, representing a 21 percent annual growth rate. However, the growth rate obviously slowed down compared with the beginning of this year. This reflects that Hong Kong's capital investment needs digestion and adjustment after a booming period, and it has something to do with the prudent and wait-and-see attitudes adopted by Hong Kong businessmen toward the trade negotiations between China and the United States.

The more prudent attitude of Hong Kong businessmen in investment and production is also manifested in the declining import growth of raw materials and semifinished products. The accumulative goods value of spinning, cloth, manufactured goods, and relevant products imported by Hong Kong in the first six months merely increased to HK\$51.09 billion, up 16 percent over the

same period last year. It is mainly because Hong Kong businessmen are a little more prudent in receiving orders, and there are greater stocks of raw and semifinished materials, which call for some kind of digestion and adjustment.

Conversely, the import growth of ordinary consumer goods is ever more considerable. In particular, the import goods value of garments and fittings, which are daily necessities, exceeded HK\$6.8 billion in June, an increase of 39 percent, raising the average annual growth rate for the first half of this year to 24 percent. As for miscellaneous products such as baby carriages, toys, game and sporting goods, and so on, June also saw a sharp increase of 45 percent. It is thus obvious that the intention for consumption in Hong Kong has remarkably improved.

The import growth of durables also attracts people's attention. The import volume of telecommunications, recording apparatuses, and hi-fi equipment in June amounted to HK\$6.93 billion, up 31 percent over the same period last year; and camera equipment and accessories, optical instruments, clocks, and watches had a 32 percent increase over the same period. One can see from this the roughly equal performance of various kinds of imported materials.

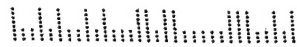
Asian products hold a considerable place in the Hong Kong market. Mainland China, Japan, and Taiwan are Hong Kong's top three suppliers, with their growth of accumulative goods value in the first six months ranging from 20 to 30 percent. U.S. products still have a certain market share in Hong Kong, but they had only a 14 percent growth during that period.

In the situation in which economy and trade are plagued by several unclear factors pressing close, it is anticipated that Hong Kong's imports in the third quarter may slow down a little. But various kinds of Hong Kong's internal demands are quite eager, and, in particular, it is believed that imports will be stimulated again to shoot up once the financial and financing problems of building the new airport are settled. Hong Kong's import value will probably continue to be greater than the gross value of exports, causing its foreign trade deficits to continuously increase.

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